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## CONTENTS

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### INTERNATIONAL

#### GENERAL

- QIUSHI Urges 'Fair' New International Order [16 Aug] ..... 1

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Tong Dalin Discusses Reform, Reformers [Hong Kong CHING PAO 5 Sep] ..... 5  
Li Yining on Standardization of Enterprises [JINRONG SHIBAO 19 Oct] ..... 6  
Discussion on Further Emancipating Mind [JINGJI GUANLI 5 Aug] ..... 9  
Change of Government Role in Economy Urged [JINGJI CANKAO BAO 12 Oct] ..... 11  
Price Policy in Transforming Large State Enterprises [ZHONGGUO WUJIA 17 Sep] ..... 13  
Guo Shuqing on Reform of State Economic Sector [JINRONG SHIBAO 12 Oct] ..... 16

#### PROVINCIAL

- Shandong To Experiment With Urban Residence System [Jinan Radio] ..... 18  
Hubei Speeds Up Economic Development  
[Hong Kong LIAOWANG OVERSEAS EDITION 31 Aug] ..... 19  
Wuhan Becomes New Opening Up Hot Spot  
[Hong Kong LIAOWANG OVERSEAS EDITION 31 Aug] ..... 22  
Jiangsu Economy Along Changjiang Booming [LIAOWANG 7 Sep] ..... 24

#### FINANCE, BANKING

- Shanghai Stock Exchange Develops Rapidly in 1992 [XINHUA] ..... 28  
Mao Yingliang on Shanghai Financial Reform [Hong Kong CHING CHI TAO PAO 28 Sep] ..... 28

#### INDUSTRY

- Textile Industry Fully Opens Up To Market [JINGJI CANKAO BAO 2 Sep] ..... 31  
GATT Impact on Textile Industry Discussed [JINRONG SHIBAO 17 Oct] ..... 31

#### AGRICULTURE

- Du Runsheng on Rural Reform, Market Development  
[ZHONGGUO NONGCUN JINGJI 20 Sep] ..... 34

#### SOCIAL

- Dongfang University Established in Changchun [JILIN RIBAO 29 Oct] ..... 39

#### MILITARY, PUBLIC SECURITY

- Yang Baibing's Attempt To 'Usurp Army Leadership' [Hong Kong MING PAO 4 Dec] ..... 40  
QIUSHI Lauds Work Style of Missile Personnel [1 Aug] ..... 40

#### TAIWAN

- President Li Criticizes Pro-PRC Party Members [TZULI CHOUPAO 20 Nov] ..... 43

## GENERAL

### QIUSHI Urges 'Fair' New International Order

HK2809150692 Beijing QIUSHI in Chinese  
No 16, 16 Aug 92 pp 40-43

[Article by Chen Xiong (7115 7160): "Establish a Fair and Rational New International Order"]

[Text] At the historical juncture when mankind is about to enter the 21st Century, the international situation continues to change. The question of where the world will go and what new international order will be established has become a major topic in the contemporary era. Therefore, all people who are concerned about international affairs are pondering, probing, and working toward the establishment of a fair and rational new international order to bring benefit to hundreds of millions of people throughout the world.

#### I.

The establishment of a new international order was first initiated by Comrade Deng Xiaoping in 1988. After brilliantly analyzing the international situation, he pointed out: A new situation has emerged in today's international politics, and "we should raise the issue of establishing a new international political order." Approximately three years have elapsed since he made that statement, and developments in world events have demonstrated the correctness and farsightedness of his judgment. The world of today is not to be compared with that of the past. The establishment of a new international order is a historic topic which requires a speedy solution in practice; it is not merely an important issue which calls for diligent study in theory.

Everyone knows that, as a historical category, the international order is always closely related to the international relations and world pattern existing at a certain historical stage, with the former influencing and checking the latter and vice versa. The world pattern reflects the relative strength of the major countries and groups of countries—including the combination and distribution of strength during a certain stage. The international order is an expression of the basic norms and behavior codes commensurate with the world pattern which guide relations between states. Any change in the world pattern will surely lead to the establishment of a new international order which reflects the changed situation. After World War I, the Versailles Treaty was signed, under which the victorious countries forced the defeated nations to accept certain arrangements. Major countries and political groups were reorganized, and the world pattern based on the "Versailles System" took shape. The result was a new international order characterized mainly by big powers scrambling for supremacy, their basic objective being domination of Europe and the world. This world pattern nevertheless lasted for 20 years and then collapsed like a house of cards. World War II ended with the signing of the Yalta Treaty and the world pattern based on the "Yalta System" framework

took shape; a new international order was thus established. Even though in its early stage this pattern and order represented, to a certain extent, an approval of the victory of the world people's anti-Fascist war, very soon they evolved into a cold war situation which was characterized by the antagonism and confrontation between the United States and the Soviet Union and the standoff and confrontation between two major military blocs. Fundamentally speaking, this international order was still mainly characterized by hegemonism and power politics, with world dominance as the basic objective. The facts over the last 40 years or so have shown that those pursuing hegemonism and power politics will repeatedly run into a stone wall and end up in a blind alley. Up to the end of the 1980's and the early 1990's, various events took place one after another, such as the drastic changes in Eastern Europe, German unification, the integration of the Warsaw Pact, and the collapse of the Soviet Union as one pole of the world pattern. During that period, as the other pole of the world pattern, the United States became the "only superpower," but its superior position had been greatly weakened. Japan and Western Europe rose swiftly as a new force. China's influence [fen liang 0433 6852] had become increasingly significant. All this shows that the postwar bipolar pattern has ended, and a multi-polar pattern is on the rise. The world has entered a new turning point, and the time for shaping a new international order has come. It was precisely against this macro international climate backdrop that, proceeding from the fate of mankind, China took the lead in proposing the establishment of a new international order. Since then, the United States, Japan, many developing countries, and major developed countries in Western Europe have put forth their own proposals and conceptions one after another based on their own positions and interests. At the 46th UN Assembly held at the end of last year, Chinese Foreign Minister Qian Qichen once again outlined China's basic standards and a specific proposition for the establishment of a new international order. The representatives of 60 more countries also put forth their proposals at the assembly. This fully shows that the international community has universally paid close attention to this great event, which involves the direction of the world's development, and has put it on the agenda as a major issue.

Seeking a fair and rational new international order is the urgent wish and demand of the people of the world. As is known to all, although the international order that was established after the end of World War II has not sparked any more world wars, local wars have occurred without interruption since its establishment. The cases of superpowers wantonly interfering in other countries' internal affairs and trampling upon other countries' sovereign rights have been nothing new. The exploitation of developing countries by a small number of Western developed countries, who rely on their economic strength, is far from over. The essence of this old international order was the pursuance of hegemonism and power politics, subjugation of small nations by big

nations, bullying of poor nations by rich nation, and humiliation of weak nations by strong nations. Thus, the old international order has caused small countries and nations to suffer, has brought damage to normal international exchange and cooperation, and has caused even disastrous suffering to all of mankind. It goes without saying that such an order has not brought genuine peace and development to the world; nor has it brought universal development and prosperity to any countries. It, therefore, can only expect to encounter opposition by numerous countries and peoples. Currently, as the world is at the stage of replacing the old pattern by a new one, establishing a new international order which is characterized by peace, stability, cooperation, and development accords with the will of the people as well as the general trend of events; one might well say that historical development necessitates this end and the progress of the times requires it.

## II.

Establishing a new international order calls for long-term strenuous efforts from all sides. What is primarily needed, however, is to define a common foundation on which members of the international community can jointly establish a new international order. All countries and nations as well as all people studying international strategy are encouraged to give earnest consideration and offer their ideas on this issue. China itself favors taking the Five Principles of Peaceful Cooperation as the foundation for a new international order. The Five Principles of Peaceful Coexistence were jointly initiated by China and some neighboring Asian countries in the 1950's and have withstood the test of history of the approximately 30 years since then, thus displaying their great vitality. The five principles are: mutual respect for sovereignty and territorial integrity, mutual nonaggression, noninterference in one another's internal affairs, equality and mutual benefit, and peaceful coexistence. The five principles, which are quite unequivocal, concise, clear, and comprehensive, represent a generalization of the most basic norms governing international relations and are in complete accordance with the purpose and principles of the UN Charter. They are a profound reflection of the new international order's essential characteristics, can serve all different types of countries throughout the world, and are acceptable to all countries. Such being the case, establishing a new order on the basis of the five principles is extremely suitable and eminently workable.

First, the Five Principles of Peaceful Coexistence can serve countries with different social systems. In the world today there are both socialist and capitalist countries, which have different social systems, ideologies, political beliefs, and values. As long as they genuinely practice and abide by the five principles—which means they will have laid down a solid foundation for the establishment of normal relations—they can coexist peacefully by transcending different social systems. We have always maintained: Countries with different social systems conduct exchanges with each other and learn

from these contacts in order to make up one another's deficiencies. This benefits both sides. Mutual seclusion, confrontation, and conflict benefit no one. Therefore, China has consistently advocated and persisted in taking the Five Principle of Peaceful Coexistence as the basic norm guiding inter-state relations and has done its utmost to establish and develop relations with countries that have different social systems. For example, China and the United States have different social systems, values, lifestyles, and cultural traditions. The three joint communiques signed by the two sides in the course of normalizing diplomatic relations and steadily developing relations over the long term nevertheless were the embodiment of the basic spirit of the Five Principles of Peaceful Coexistence. Although there are differences, struggles, and disputes in some aspects of the relations between the two countries, as long as problems are resolved according to the Five Principles of Peaceful Coexistence, cooperation can be boosted and relations can be developed in the spirit of seeking common ground while reserving differences. The basic spirit of the Five Principles of Peaceful Coexistence has also run through China's efforts to establish diplomatic relations, to strengthen friendship, to conduct cooperation on an equal footing, and to coexist peacefully with Japan and numerous countries in Western Europe and Oceania, thus setting a model for establishing and developing relations among countries with different social systems. On the contrary, if hegemonism and power politics are still pursued as in the past in an attempt to "unify the world with capitalism"—as some people have urged—the peaceful coexistence of countries with different social systems is out of the question. This will pose a serious threat to the peace of mankind and will certainly dash the prospects for the establishment of a new international order. Therefore, establishing new relations between countries with different social systems on the basis of the Five Principles of Peaceful Coexistence comes from China's own immediate experience and from a profound rethinking of past events, with the objective realities in the world today and the overall international strategic situation in mind.

Second, the Five Principles of Peaceful Coexistence can serve countries at different levels of development. At present, developed countries account for one-fifth of the world's total population, while the remaining four-fifths belong to developing countries. Developed countries are mostly found in the Northern Hemisphere, and developing countries are mostly in the Southern Hemisphere. The Five Principles of Peaceful Coexistence can best serve the effort to properly handle relations between Northern and Southern countries. During the long years of the past, the relations between Western countries and many Asian, African, and Latin American countries were like those between suzerain states and colonial or semicolonial states. As the Asian, African, and Latin American countries gained political independence one after another after the end of World War II, the former relations between the ruler and the ruled came to an end. Nevertheless, although some improvements were

achieved in the relations between the Northern and Southern countries in those years, all sorts of contradictions and problems, political and economic, remained between the two parties. To correctly and effectively solve the contradictions and problems, it is still necessary to follow the Five Principles of Peaceful Coexistence. For instance, for the Northern and Southern countries to establish long-term and stable political relations, they should uphold the basic principles, such as mutual respect for sovereignty and territorial integrity and non-aggression and noninterference in one another's internal affairs, earnestly admitting that all sovereign nations, big or small, strong or weak, rich or poor, should have an equal position. To establish completely new relations of this kind, quite a few things need to be done, and the Five Principles of Peaceful Coexistence can serve as the most powerful guide. The contradictions, differences, and struggles between Northern and Southern countries in economic and trade relations are greater in number and more comprehensive as compared with other fields of endeavor. In the previous international economic order, the economic relations between Northern and Southern countries were not based on an equal footing, and the economic development gap between them was very vast. Consequently, rich nations were getting richer and richer while poor nations were becoming poorer and poorer. In the early 1950's, the per-capita income of developed countries was approximately 20 times more than that of developing countries—it was over 40 times higher by the end of the 1980's. The comparative gap between developed countries and low-income developing countries in this area was 54 times in 1988. This imbalanced state of affairs is, in the final analysis, the result of unequal economic and trade relations and of the nature of the old international economic order. Although the old international economic order was strongly opposed by the vast numbers of developing countries, it has not yet left the historical arena. To solve North-South contradictions and readjust North-South relations, the key idea is still to take "equality and mutual benefit"—one of the five principles—as the basis.

Third, the Five Principles of Peaceful Coexistence can serve neighboring countries. All countries in the world have their own neighbors and must deal with the issue of handling relations with its neighbors. In this regard, China's new relations with its neighboring countries have provided a successful model for all countries. As the initiating nation of the Five Principles of Peaceful Coexistence, China has consistently developed relations with its neighboring countries in accordance with the five principles. Over the last several decades, China has successively resolved the border issues left from history with numerous neighboring countries and has established and developed good-neighbor and friendly relations with many peripheral countries. Its basic experience in this regard can be summarized into one point, that is, firmly implementing the Five Principles of Peaceful Coexistence. In the world today, there are various problems between different nations, and some of them have even hampered the establishment of normal

relations. For example, some Asian, African, and Latin American countries—which were ruled by the colonialists for a long time in the past—are confronted with many problems left from history in such areas as territory, territorial waters, and boundaries, which are also affected by factors such as religious beliefs, nationality, and race. The relations of quite a number of these countries are strained. In some countries among them armed conflicts have occurred repeatedly, inflicting huge losses in life and property and disrupting regional and even international peace and stability. In some European countries, the territorial conflicts, ethnic disputes, and religious contradictions which were left from history have become apparent recently. In some countries, these problems have even led to conflicts and wars, not only hampering normal relations between states but also disrupting peace and stability in Europe. Facts have proven that it is the Five Principles of Peaceful Coexistence that can really and universally work in properly and effectively solving the relations between neighboring countries.

Overall, the Five Principles of Peaceful Coexistence, which are rich in content and not subject to the restriction of time and space and reflect the world's diverse needs, are suitable for properly handling inter-state relations in the new international situation. They are the basic norm that should always be upheld in establishing a new international order.

### III.

What is the ultimate goal of establishing a new international order? To sum up, the ultimate goal is to bring about universal peace and common development to the world. Setting the goal on this commanding height reflects the common aspirations and fundamental interests of people throughout the world. China has persistently pursued an independent and peaceful diplomatic policy, has always persisted in developing relations with all countries in the world on the basis of the Five Principles of Peaceful Coexistence, with an aim to creating a international environment for peace and development and seeking common development for all mankind. This is aimed not only at the fundamental interests of the Chinese people but also those of people throughout the world. Thus, China's diplomacy has set a shining example which has won the universal praise of the international community.

There is a veritable forest of nations in today's world, which has a population of 5 billion people or more. The purpose of setting peace and development as the goal of establishing a new international order is to let mankind strive for new development in an environment of lasting peace. As everyone knows, from generation to generation mankind has always longed for peace and development in the process of evolution—from its primitive stage to modern civilization characterized by the formation of different nations and the establishment of different states. Nevertheless, during the long years, wars have occurred in endless circles. In this century alone, large

imperialist powers launched two world wars successively, inflicting disastrous catastrophes on all mankind. Since the two world wars, more than 200 local wars have occurred, leaving approximately 20 million people dead and causing losses in property in terms of tens or hundreds of billions [currency not specified], thus seriously hampering world peace and development. The old pattern has now been smashed, but the world is still not tranquil. The cold war situation characterized by bipolar confrontation is gone, but ethnic contradictions, territorial disputes, and religious problems—which have been covered up for a long time—have now become pronounced and have sparked a series of new disturbances, conflicts, and even wars. In particular, hegemonism and power politics have not become extinct, as certain countries are still attempting to establish the so-called “new order” with an aim to ensuring their domination of the world. This cheap trick, no matter what new label it bears, is a repeat of the same old stuff of the domination of international affairs by superpowers. Establishing such “a new order” will do nothing but endanger the international community’s stability and security. It runs counter to the aspirations and interests of the people of the world. In the world today, people desire peace and development. This has become the spirit of the times and a historical trend. Such being the case, establishing a new international order with peace and development as the goal is precisely a profound reflection of the spirit of the times and is in line with the historical trend. Lasting world peace will bring about a sound international environment for the common development of various countries, which will serve as a material condition for the consolidation and strengthening of world peace. Setting peace and development as the goal is the starting point of a new international order and reflects its end result. There is still a long way to go before the goal is achieved, but as we work to establish a new international order, it is of far-reaching significance to have a clear picture of its direction and goal. Advancing together toward the goal is the sacred mission of peoples from all countries.

It must also be noticed that our advocacy of taking peace and development as the goal will help establish not only

a new international political order but a new international economic order as well. The establishment of a new international political order is closely interrelated with the establishment of a new international economic order. The purpose of establishing a new international political order is to harmonize and stabilize political relations between states to maintain lasting international peace while that of establishing a new international economic order is to achieve economic relations based on equality and mutual benefit between states. The two complement, influence, and counterbalance each other. The establishment of a new political order will create favorable conditions for the establishment of a new economic order and the latter can provide the former with a solid foundation. Politics and economics are indivisible. The idea of looking down on the establishment of a new economic order is unrealistic. Therefore, in establishing a new international order, we should not pay close attention to just one thing and drop the other. Only when the two are carried out simultaneously can they be conducive to achieving the strategic goal of establishing a new order.

Recently, General Secretary Jiang Zemin pointed out: “Enjoying lasting peace and seeking economic development are the common aspirations of the peoples of all countries. At the major turning point in the international realm that we have before us today, peoples of all countries are hoping all the more for the establishment of a new international political and economic order which is conducive to the realization of peace and development.” (“The International Situation and Sino-Japanese Relations”) This is a profound exposition of the basic direction and goal of establishing a new international order and a thorough reflection of the common aspirations and interests of the people of China and the rest of the world. “Lofty towers are all built up from the ground.” To complete this great project—which will span centuries—we should start laying down a sound foundation for it and do our part to ensure its success. We are convinced that, as long as all countries and peoples in the world persistently make a concerted effort, the grand blueprint for establishing a new international order will be materialized, and the future of all mankind will become brighter.

## NATIONAL AFFAIRS, POLICY

### Tong Dalin Discusses Reform, Reformers

93CM0033A Hong Kong CHING PAO [THE MIRROR] in Chinese No 182, 5 Sep 92 pp 48-49

[Text] Economic growth in the Zhu Jiang Delta has been very rapid, due mainly to cutting-edge guiding thought and theoretical views that have been thoroughly implemented. In this regard, two representative individuals from Guangdong, Zhuo Jiong [0587 3518] and Ren Zhongyi [0117 0112 1138], have consistently advocated development of the commodity economy ...

Recently, Professor Tong Dalin [4547 1129 2651], who is the former editor-in-chief of HEILONGJIANG RIBAO and Vice-Secretary of the China Economic System Reform Research Center, discussed with the author such issues as the direction of China's reforms and the fates of the reformers. What follows are the salient points of the discussion with Tong Dalin.

#### Changing the World Is the Issue

In a talk given in the early 1980's entitled "Practice Is the Only Barometer of Truth," Tong Dalin came down harshly against theory divorced from reality. Today, Mr. Tong still feels that empty talk is a highly tempting seductress who brings misfortune to the people. Over a long period of time, a strange mode of thinking has evolved in China whereby issues are not considered based on reality, but rather, get tossed around in ivory tower bickering. For example, the issue of "is it socialism or capitalism" was handled by unresolved quibbling such that much precious time was wasted.

Some issues should not be fought over but will prove themselves through actual practice. Today, are not the realities of China's coastal region "four little dragons" - the Zhu Jiang Delta, Suzhou-Changzhou, the Shandong Peninsula, and southeastern Fujian - eminently obvious for all to see? In these regions, new, scaled-down versions of the socialist commodity economy have emerged.

Tong Dalin is thoroughly convinced of the Marxist view that "changing the world is the issue." He says that it will be very difficult to liberate our thinking unless we do more to break away from our formalistic, dogmatic conventions and persist in marrying theory with reality.

#### Capitalism Does Not Have a Patent on the Commodity Economy

While discussing how to manage the market economy, Tong Dalin said that he felt that with the market at work, the laws of economics will propel production forward and will drive open a breach in the highly centralized planned economy.

Why did the Soviet Union disintegrate? Put simply, the lives of the masses were not satisfactory. The Stalinist model basically disregarded objective laws - how could it

not lead to a dead end? In the race for social development, the Stalinist model of socialism was a loser, and consequently, it disintegrated. Deng Xiaoping saw this very clearly, and thus even in his old age, decided to take a look at the economies of the southern provinces and institute their model in furtherance of China's reforms. China's reforms must go beyond the limitations of the Soviet model and make wholesale revisions in the planned economy. However, the market economy and economic planning are two concepts. Every age requires an economic plan.

Some people feel that advocating a commodity economy is tantamount to capitalism. They rhetorically ask whether feudal society also had a commodity economy like that of the "silk road." At that time, there was not even a trace of capitalism. Capitalism does not have a patent on the commodity economy.

Tong Dalin pointed out that, "in the 1990's, reform must look to Shanghai, liberalization must look to Hong Kong."

He feels that Shanghai is in good shape, whether one looks at the geographical environment or the production base, and that henceforth, Shanghai should serve as a catalyst for China's economic development. Pudong is now experiencing a development frenzy, but one Pudong is not enough. Shanghai should be made into a key city for world activity, not only because of its economy, but because of its superiority in high technology, cultural and artistic activity, and social stability. In turn, this can pay off for all areas of the country, and in particular, it could lead to economic growth in the hinterland. It all comes down to whether Shanghai, as the economic catalyst for the whole country, can free itself from interference by the oft-reconstituted old model.

Hong Kong holds a prominent position in the world, with its galaxy of talented people. Economically, it enjoys a unique competitive edge. It is a buyer's heaven - if you need anything, you just pick up the telephone and the thing will be delivered to your doorstep. The people of Hong Kong have very modern views. In some areas of development they have met with losses, yet, in many other areas they have enjoyed success. Many areas of Hong Kong's experience are worth studying, things such as the financial markets, trade dealings, municipal government planning, the tourist industry, municipal order, etc.

Development of the market economy will also require that we focus on cooperative exchange with Taiwan. I have an idea here - Hong Kong, Gaoxiong, and Xiamen can form a "triangle" for economic cooperation. Later, a southeastern China coastal economic region can grow into formation. If the 21st century is to be the Pacific century, then this region could become a veritable jewel in the Pacific crown. Although the three areas are under different social systems, they all belong to the same mother country and share common blood and cultural

traditions. The establishment of economic cooperation between these areas should be a swift and easy affair.

#### At Least Reformers Will Not Be Cast as Traitors

Not only are the scope, content, and object of this episode of China's reform liberalization extremely vast and complex, large-scale adjustments of the interests and powers of different levels, groups, and individuals are involved. Thus, throughout the entire reform process, there inevitably will be a plethora of contradictions and impediments, costs will have to be borne, and sacrifices will have to be made.

Throughout Chinese history, reformers have often met with adversity and misfortune. Like the six progressives involved in the Wuxu Year coup, the fates of reformers truly make a person sigh. However, I think that the matter can be viewed in a different light. Although reformers go through terrible hardships in their lifetimes, ultimately, their actions lead to good results. Do not people today still admire Tan Sitong [6223 0843 0681]?

At the outset, not all was smooth sailing for reform in Guangdong. Especially in the Zhu Jiang Delta, the reason that the socialist commodity economy developed so fast was primarily because the cutting-edge guiding thought and theoretical views were thoroughly implemented. Tong Dalin says that two individuals are representative of this success - Zhuo Jiong and Ren Zhongyi.

Since the early 1960's, Zhuo Jiong and a segment of the theoretical research economists in Guangdong consistently and dauntlessly advocated development of the commodity economy. To his dying day, Zhuo Jiong stuck to his views in an uncompromising way. This upright and rigorous scholar influenced many with his theories.

Both while he was in charge of Guangdong party committee work and after leaving his post, Ren Zhongyi consistently emphasized the core commodity economy economic idea of the law of value while applying it in real-life work. Together with other government and party leaders in Guangdong, he took the principle of seeking truth from facts and worked within the overall plans of reform liberalization and the overall program of economic development to boldly explore and actively experiment, combining such things as higher-level policies and plans and leadership directives with the actual conditions of his region and creatively executing the same in a thoroughgoing way. It is because of liberated thinking and self-initiated development that the Zhu Jiang Delta could raise a group of cadres and citizens with new ideas and styles of work, foster an atmosphere of healthy competition, and give rise to a vibrant environment of resourcefulness.

Mr. Tong is utterly optimistic about the prospects of reform. He said that the people want reform, that there are 1.1 billion people who want to survive and eat, and once having eaten, they want to improve their lot a bit.

Man instinctively yearns for a happy life. It is not an issue of a minority who may or may not want reform.

In the mid-1970's, Beijing was doing fine, as were other cities. But restaurants all had their beggars looking for left-over scraps, since the people out in the villages were increasingly going hungry. When this happens, is it acceptable to not reform? With the reform liberalization of recent years, the people's lives have greatly improved and the whole country has obviously been given a boost of vitality. How can this all be wiped out? Regardless of the fates of the reformers, at least they will not be cast as traitors.

In his recent talks, Deng Xiaoping has particularly made mention of "liberating our thinking a bit, increasing our courage a bit, and picking up our pace a bit." His goal is to speed up reforms and ensure development of the productive forces. Based on the situation today, the future looks bright because the people are not bound to backtrack to the old roads.

#### Li Yining on Standardization of Enterprises

93CE0113A Beijing JINRONG SHIBAO  
in Chinese 19 Oct 92 p 3

[Article by Li Yining (0632 0110 1337), professor Beijing University: "The Market Economy and the Standardization of Enterprise Behavior"]

[Text] Under the traditional economic system, enterprises were only appendages of government organs. Under such circumstances, government and enterprise activity are not separated, enterprises do operate autonomously or take responsibility for their own profits and losses, government directives take the place of free choice, and planned quotas squeeze out the competition of supply and demand. As a result, irregular enterprise behavior is ubiquitous, and in turn leads inevitably, on the one hand, to the growth of inefficient supply, waste of resources, loss of control over investment, expansion of consumption funds, mounting enterprise losses, and tight fiscal revenues. On the other hand, it inevitably leads to long-term shortages of the products and labor needed by society. It makes it impossible to satisfy the desires of consumers, and it becomes difficult to raise the people's standard of living. In other words, with irregular enterprise behavior, it is impossible to achieve the goals of socialist production or tap the superiority of the socialist system. From an economic perspective, the irregular behavior of enterprises as microeconomic units is one reason why some people have lost confidence in the socialist system.

The problem of irregular enterprise behavior cannot be solved within the bounds of the traditional economic system. The essence of the planned economic system is the command economy, the power economy. The position of enterprises as adjuncts government organs is what guarantees the operability of the command economy and the power economy. Ask yourself how the status of enterprises as adjuncts of government organs



can be changed with the framework of the command economy and power economy. Only by dismantling the traditional planned economy and turning to a new market economy can enterprises become truly independent producers, and only then can their behavior become regular.

What kind of behavior can be termed regular? In brief, an enterprise's economic activities should be oriented toward its own economic interests. In order to maximize these interests, an enterprise must strive to lower costs, raise productivity, increase profit, and continually expand market share. In order to achieve this, an enterprise must attach importance to product quality, reputation, and image. An enterprise must seek profit and avoid loss, be able to curb its own behavior, and seek growth. An enterprise must at all time be aware of changes in its position in the marketplace, and readjust its business strategy accordingly, readjust its method of combining production factors, and readjust its long-term development strategy. To put it another way, when an enterprise overworks its equipment, eats up its capital, and distributes every bit of profit to workers and staff, then it is behaving in an irregular manner. When it pays no attention to product quality, reputation, or the marketability of its products, this is also irregular enterprise behavior. When it keeps no record of losses and even continues issuing bonuses after losses have occurred, ignores the needs of consumers and even continues producing large quantities of items that do not sell but instead pile up in inventory, this too is irregular enterprise behavior. In short, because enterprises are not independent producers, but only appendages of administrative organs, under the traditional economic system, they do not truly have any self-interest to speak of, and the reason for irregular enterprise behavior is clear.

After the economy switches to the market system, enterprises appear on the market in the capacity of independent producers. All enterprises are on equal footing, their starting point is the same, a single policy is applicable to them all, the differing amounts of profit are earned because of competition, and the self-interest of enterprises is closely linked to their success or failure in competition. The winners of the competition are the ones that take in the profit, and those which lose the competition are the ones that lose money, so enterprises are just as concerned about their self-interest as they are about competition. To succeed against the competition, enterprises must regularize their behavior, and make their behavior meet market standards and the demands of competition. Competition forces enterprise behavior to become regular.

As far as the current trend of China's economic reform is concerned, the switch from the traditional economic system to a market economic system is irreversible. With this change in economic system, the current irregular enterprise behavior will inevitably become regular. The reason why this change in enterprise behavior can come about is closely related to the furthering of economic

reform. Enterprises are microeconomic units. The microeconomic foundation of the traditional planned economy is enterprises operating within the context of lack of separation between government and enterprise activity, lack of operational autonomy, and lack of responsibility for profits and losses. Thus, if we are to make the transition from the planned economy to a market economy, we must make enterprise reform a key priority in the economic reform program. As we further enterprise reform, we must truly achieve the separation of government and enterprise activity, and then we must clearly delineate the boundaries of property ownership and clarify investor entities in order to reorganize or remake enterprises within a shareholding system. Only then will the market economy be established and regular enterprise behavior become a reality. Most economists are in agreement on this point.

Enterprise reform is a primary aspect of the transition to a market economy, and the regularization of enterprise behavior will inevitably benefit efforts to perfect order in the market economy and fully tap the role of the market mechanism. It must be realized that only with regularized enterprise behavior can the two parties to a transaction have stable expectations. Irregular enterprise behavior inevitably creates uncertainty for the parties to a transaction, which in turn further exacerbates the irregularity of enterprise behavior. This is because when an enterprise, as a party to a transaction, takes part in a transaction against a backdrop of uncertain expectations, it is difficult to realistically forecast costs or benefits. One result is that it will take excessively protective measures to prevent losses (for example, it is necessary to increase reserves to avoid an interruption of production or losses from accidents in the course of production and other business activities). This raises costs and reduces benefits. Another result is the enterprise may miss out on good opportunities to invest and make money, and it might even adopt a short-sighted investment strategy and be unwilling to make long-term plans. Even worse, irregular enterprise behavior could spur enterprises to carry out their transactions in the underground economy, making it difficult to establish order in the market economy, thereby causing transactions to occur in a distorted environment. This is not beneficial to efforts to tap the role of the market mechanism.

Furthermore, a special characteristic of the market economy lies in the fairness of competition and the flexibility of choice. Without fair competition or free choice for all players, there can be no market economy to speak of. The fairness of competition and the flexibility of choice are demonstrated in the order of the market economy. Irregular enterprise behavior excludes the possibility of fair competition and flexible choice for all players, and order in the market economy is inevitably disrupted. We often hear that the order of the market economy is like the rules of traffic. If the rules of traffic are thrown into chaos (for example, if stoplights stopped working, if cars could travel on either side of the street), then no matter how skilled the driver or smooth the

road, there will still be a huge number of accidents. It is the same with market transactions. If the order of the market economy is thrown into chaos (for example, if unfair competition is considered normal, if free choice for all players becomes free choice for only one player, or if free choice is even forbidden), if breaches of contract are not prosecuted, if debts need not be repaid), then no matter what aspects of internal enterprise management are improved, and no matter how the enterprise goes about technological upgrading, enterprises are unlikely to avoid chaos in management. It is thus apparent that the normalization of order in the market economy that results from the regularization of enterprise behavior is a prerequisite for the achievement of normal enterprise operations and normal execution of transactions.

The transaction from irregular to regular enterprise behavior is a gradual process. As has been mentioned above, the key is to further enterprise reform so that enterprises will become independent producers which have operational autonomy and take responsibility for their own profits and losses. However, other reforms which go hand-in-hand with enterprise reform are also indispensable. If the delineation of property rights, the clarification of investment entities, and using the shareholding system to overhaul current enterprises cannot score a complete and immediate success, then a series of other reforms that go hand-in-hand with enterprise reform will have to proceed gradually. We cannot hope to complete the series of reforms described above in a short period of time, so neither can we hope to regularize enterprise behavior in a short period of time. Of the reforms which go hand-in-hand with enterprise reform, these three are the most important: price reform, reform of the circulation mechanism, and reform of the social security system.

With respect price reform, the goal of reform is to establish a market price setting mechanism, in other words, a supply and demand price setting mechanism. While it is true irrational price ratios can affect how enterprises choose to combine production factors as well as their choices regarding inputs and outputs, thereby affecting efforts to regularize enterprise behavior, nevertheless, the most important problem right now is that the simultaneous existence of two different types of prices, and the way enterprises utilize the attendant price differentials, can force enterprises to use noncompetitive means to increase benefits. They might use quotas to reap advantages. These are the conditions which breed continuing irregular enterprise behavior. Thus the significance of making it the goal of price reform to achieve a market price setting mechanism lies in the fact that it eliminates the current dual price system and forces every enterprise to enter the fray at the same starting line as far as prices are concerned. They compete fairly and have free choice. Only through competition can they defeat their rivals and occupy market share. The regularization of enterprise behavior and the normalization of order in the market economy can only ultimately be achieved through the establishment of a market price setting

mechanism. The fact that price reform is carried out in stages and market prices reach their appropriate level one step at a time is what determines that the transition from irregular to regular enterprise behavior will not yield results all at once.

With respect to reform of the circulation mechanism, the goal of reform is to eliminate intermediate links which gum things up so that every type of commodity can freely circulate through economically rational channels; and to enable producers, those involved in commerce, and consumers to all achieve the greatest possible satisfaction and to receive greater benefit. If obstructive intermediate links continue to exist and commodities cannot circulate along economically rational channels, then there is fertile ground for the proliferation of irregular enterprise behavior. A prominent example is the many varieties of local protectionism. Local authorities use a number of tactics to protect irregular enterprise behavior. Even when enterprise behavior is irregular, they are able to reap real profits within isolated and protected local markets. After reform of the circulation system, obstructive intermediate links will have disappeared, circulation channels will have opened wide, and markets will have become unified. Enterprises can then only rely on normal economic order, and on fair competition to carry out transactions. This will push enterprise behavior toward regularization. However, it must be noted that the existence of many intermediate obstructions in the circulation system is not due simply to causes internal to the circulation system, but to a greater degree has to do with the current finance system, and with local interests. It is precisely for this reason that obstructive intermediate links in the circulation system cannot be completely eliminated in a short period of time. It is more likely that when one type of intermediate obstruction is eliminated, another one will appear. If we are to truly eliminate all intermediate obstructions in the circulation system, we need to carry out a number of economic reforms, including reform of the circulation system. Without doubt, this requires an ongoing process. Only after these reforms are successful can enterprise behavior be regularized.

With respect to reform of the social security system, the goal of reform is to establish a social security system supported by the entire society. In other words, the entire society will pool its resources to provide old age assistance, unemployment assistance, medical assistance, work injury compensation, etc. The reason why labor does not easily circulate, and the reason why enterprises cannot hire and fire workers and staff in accordance with their interests and needs, has a lot to do with the fact that the social security system has not yet been extricated from the traditional system. This also offers a partial explanation for irregular enterprise behavior. If we were to switch from the traditional social security system to a new one in which the entire society pooled its resources to meet various needs, the transition to regularized enterprise behavior would go much more smoothly. However, the new social security system

cannot be quickly established throughout the country. This process must be gradual, otherwise the state, enterprises, and workers and staff would not be able to cope. Besides, this reform touches upon the immediate interests of thousands of enterprises, and because interests are inflexible, it would increase resistance to reform if we moved too fast, so we can only begin with experimental implementation of the new social security system, and then gradually expand.

Apart from the three types of reform just described, there are other reforms that should be implemented in order to make the transition from the irregular to regular enterprise behavior, including reform of how labor is used, reform of the foreign trade system, reform of the finance system, reform of the banking system, etc. In short, although furthering of enterprise reform is the main focus of our efforts to change from the traditional planned economy to a market economy, that does not mean that this transition can be achieved without other complementary reforms. The establishment of a market economy and the regularization of enterprise behavior can only be the product of a process at the center of which is enterprise reform, which is in turn complemented by a series of related reforms. The success of the overall reform program will determine when China's socialist market economy can be established.

There has been no country in the history of socialism capable of achieving regularization of enterprise behavior within a traditional planned economy. To date, wherever enterprises have been appendages of administrative organs, their behavior has been irregular. This has caused great losses to the socialist economy. China's current reforms are an attempt, within the context of a socialist economy, to switch from the traditional planned economy to a market economy; to establish a normal market economic order within a socialist economy; to achieve regularized behavior in socialist enterprises. This is a great, unprecedented experiment. We can foresee that with the encouragement of the spirit of the 14th Congress of the Communist Party of China, and through the efforts of millions of Chinese, China will inevitably emerge victorious in this arduous and glorious task. This market economy will bring us more than just a flourishing economy and a continually improving standard of living; it is an historical innovation of the socialist system. This innovation shows that the traditional planned economy must be replaced by the market economy.

The market economy can bring to socialism new vitality, new life, and new possibilities. Only with a market economy can the superiority of the socialist system be fully tapped.

### Discussion on Further Emancipating Mind

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[Article by Jiang Haipo]

[Text] Considering China's present situation, it is clear that the task of emancipating the mind involves many areas. Based on the principle of integrating the universal tenets of Marxism with actual conditions in China, shedding the shackles of dogmatism and specifying why China's economic systems are being restructured is one important aspect. China's experience in reform has proven that the pace and progress of economic reform is directly affected by whether the goals of economic restructuring are accurately defined, and is related to the success of reform.

In view of the above mentioned principles, it is clear that the specific goal of economic restructuring in China is to create a socialist market economy. The reason is: First, this is the only viable way to fulfill the basic requirement of economic restructuring. This requirement can be summed up in two fundamental ways: First is to realize the self-completion and self-development of the socialist system. Second with this as a foundation, emancipate and develop the productive forces of society. The process of realizing the self-completion and self-development of the socialist system also encompasses two basic preconditions. First, reform must be implemented within the context of a socialist system. Second, the traditional economic system based on direct administrative control must be thoroughly revamped. China's experience shows quite clearly that in order for modernization to succeed, we must develop a market mechanism function as the major economic stage. Hence if we set forth the goal that establishing a socialist market economy is the final goal of economic reform, we can then ensure that the two basic prerequisites for the self-completion and self-development of the socialist system will be fulfilled.

Three additional questions need to be clarified at this point. First, why not implement a commodity economy instead? After all, a market economy and commodity economy share many basic similarities. In view of these similarities, therefore, implementing a commodity economy is certainly feasible. However, in the final analysis, the concept of implementing a market economy is more appropriate. This is because a commodity economy can be divided into simple commodity economies (using manual labor as the basis of material technology, is only a part of a society's overall economic activities) an advanced commodity economy (using socialized mass production as the basis of material technology, encompasses all aspects of a society's economic activities, and includes capitalist commodity economy in the socialist commodity economy). However, relating a market and developed commodity

economy, no distinction exists between a market economy and a simple commodity economy. The aim of China's economic reforms is to develop an advanced commodity economy. Hence, this is why it is more appropriate for China to adopt a market economy instead of a commodity economy. But even more important, comparing a commodity economy and a market economy, the latter clearly reveals the basic role of the market to dispose of resources for social productivity. In the area of adjusting the disposition of resources for social productivity, one goal of China's economic reforms is to create a market based economy which is subject to the guidance of state planning. A market economy, therefore, reflects the overall goal of China's economic reforms much more clearly than a commodity economy.

Second, why is the modifier "socialist" placed in front of the term "market economy?" Some people believe a market economy exists in both a capitalist and socialist society; hence, it is not necessary to place the adjective "socialist" in front of the term "market economy" since the latter is a neutral concept. Indeed there are those who believe that by adding the modifier "socialist" in front of "market economy," a mode of thinking in which all things are categorized under the terms "socialist" or "capitalist" is encouraged. This particular issue requires further discussion.

Philosophically speaking, all things in the world integrate specific and general characteristics. The fact that a market economy can exist at the same time in a capitalist and a socialist society only reveals the universality of the market economy concept. It does not mean that both societies lack uniqueness or that there is no fundamental difference between society and the economy. Economically speaking, a fixed economic category is a theoretical expression of an established set of social and economic relationships. This is the fundamental distinction between society and the economy. Supply and demand, price and competition are all market mechanisms. Each of these mechanisms involves a set of socio-economic relationships. For example, competition is simply a relationship between two separate economic entities. Competing economic entities in a capitalist system are essentially different than their counterparts in a socialist system.

As for the second point of view, two separate issues have been mixed together. The tendency to categorize all things under the terms "capitalist" or "socialist" is a particular mode of thinking which has been influenced by dogmatic thought. In the past, conditions in a capitalist society have been branded by this mode of thinking. However, certain economic phenomena (including stocks, joint stock systems, stock exchanges, and even the market economy) in China's socialist society have been labeled as "capitalist" activities without a prior investigation of the truth behind the facts. This is one issue. A concrete analysis of the socio-economic conditions existing in China's present market economy should be conducted in accordance with the guiding principles of Marxism. Such an analysis

should also consider all relevant facts. It is obvious that this is a totally separate issue which has no connection with dogmatic thinking.

Third, why is the modifier "planned socialist" not used to describe the term "market economy?" We generally see the term "socialist" used instead. China's economic system reform is to change direct mandatory planning, and rectify flaws in the role of market mechanisms. In addition, the role of state planning in a traditional product economy is significantly different than its role in a newly established commodity economy. In the former, state planning plays a major role, and was the only way to dispose of social resources. Although planning is still absolutely necessary in the latter, a market based system subject to the guidance of state planning has been put in place to dispose of social resources. In view of these considerations, it is necessary to stress the role of a market economy in relation to reform goals. Furthermore, if present circumstances are considered, to a great extent a planned market economy is the common denominator between a capitalist and socialist economy. Hence, if the modifier "planned" is added to the term "market economy" in place of the adjective "socialist," the essential social distinction between these two types of market economies is lost. By adding the adjective "socialist," however, the difference between these two kinds of market economies is clearly demarcated. Moreover, the definition "planned" is included in such a delineation.

If we wish to quicken the pace of China's economic growth, we must first accurately define the aim of economic reform. China's tremendous accomplishments in the area of economic expansion attracted worldwide attention in the 1980's. Yet, accelerating the pace of economic reform is one of the most urgent tasks facing the nation today. Realizing the second and third stage strategic goals of China's economic development warrants the acceleration of economic growth. Moreover, picking up the pace of economic development is an unavoidable consequence of international competition which will determine the survival of the socialist system. If China does not maintain a high rate of economic growth in the 1990's, the present gap between China and the economically developed nations of the world will continue to widen. In addition, failure to do this will also increase the gap between China and the newly industrialized countries [NIC's] as well as those nations which have just joined the ranks of the NIC's. Once such a grim situation becomes a reality, the stability of the socialist system will be threatened.

Quickening the pace of China's economic growth will require the adoption of a variety of methods. However, reforming the traditional economic system is the most fundamental way to accomplish this goal. Removing such a basic obstacle will enable the nation to complete the transition to a socialist market economy. Ten years of reform have clearly shown that the following pattern occurs: the pace of economic growth is relatively faster in those provinces (i.e. Guangdong province) or economic

development models (i.e. rural and town enterprises) where the effect of market adjustments is fully developed.

Accurately defining the aim of economic reform is the only way to ensure that these goals fit the requirements for accelerating the pace of reform and liberalization. Since 1989, the concept of central planning has been widely written about in the most influential newspapers and magazines in China. The prevalence of this attitude is one reason why reform has bogged down in certain areas. In some cases, the reform process has even regressed. Hence, we must abandon this concept and recognize the importance of establishing a socialist market economy. Embracing the latter concept is a prerequisite for quickening the pace of reform.

Similarly, establishing a socialist market economy is also a prerequisite for accelerating the pace of liberalization. Over the last few hundred years, capitalist society has been responsible for many important achievements. To fully assimilate the basic civilized accomplishments of capitalist society within the context of a socialist system, we must pick up the pace of liberalization. In other words, a market economy that disposes resources for social productivity must be created. Establishing a market economy would allow us to integrate China's economy with the world economy in accordance with current market economy practices, ensure the success of China's foreign trade and economic relations, and increase the import of foreign capital, technology and management experience. Since China is about to resume its status as a signatory state of the General Agreement on Tariffs and Trade, the importance and urgency of realizing the above goals becomes even more obvious.

The socialist system is an essential element of China's national condition. Yet, it is only part of the overall picture. Currently, social productivity is low in China and the population is quite large. A shortage of natural resources also exists. When this situation is considered, it is easy to see why one specific goal of economic reform should be the establishment of a market economy.

A socialist market economy is the main pillar of China's market. Many economic elements, however, can still be found in China's primary stage of socialism, including many of the privately-owned enterprises which do not occupy an important place in the overall economy. Hence, the present market economy in China is not totally socialist in nature. If we consider the issue from this point of view, we can understand why it is necessary to create a market economy within the context of Chinese socialism.

To quote Lenin: "All definitions are, at best, conditional and relative in meaning. They cannot encompass the various relationships of developed phenomena." Specifying the goals of China's reforms is an arduous task which requires the joint effort of all involved. However, once concise and specific goals are determined, a standard for realizing these goals and a basis of discussing the existing analyses of these goals can then be established.

### Change of Government Role in Economy Urged

93CE0110A Beijing JINGJI CANKAO BAO in Chinese  
12 Oct 92 p 4

[Article by Zhang Lina (1728 7787 1226) of the State Restructuring of the Economic System Commission: "Accelerate Change of Government's Role in Regulating the Economy"]

[Text] After Comrade Deng Xiaoping made his remarks on his southern tour, China's reform and opening up policy has entered a new stage. But the pressing question we face today is to change the government's role in regulating the economy on a timely basis. If this task is not done well, it will affect the future of reform. For example, if the government's role is unchanged, it will be very difficult for enterprises to change the operating system to become lively market entities, or for the socialist market economy to become fully developed. Take another example, if the government's role is unchanged, and the division of responsibilities among government departments remain unclear, then it will be very difficult for governmental reforms to go forward, and for the chronic problems of over-staffing and surplus personnel in government departments to be resolved. In the next three to five years, absent a breakthrough development in changing the government's role and reforming its macro regulatory role, the reform policy will likely be bogged down and the government's role will become passive.

How can we execute this task well? My views are as follows:

We should delineate the government's role in regulating the economy by separating the responsibilities of the government and the enterprises, and changing the government's role and approach in managing the economy. In this area, the central government has spelled out its objectives clearly. In practical implementation, however, we need to proceed to solve three issues.

The first issue is to delineate and manage the relationship between the government and the enterprises. In its relationship with enterprises, the government should change its role from directing to servicing, and from direct management to indirect coordination. It is necessary therefore to implement the "two separations" and the "strengthening of one." In the various government administrative levels, the government's role in exercising macro management authority over the socialist economy should be separated from its role as owner of state-owned assets. The government should not directly take over operational management of state-owned assets, but should delegate the managerial and operational functions to concerned organizations or departments. In the various levels of the government and the enterprises, the government's role in managing the economy should be separated from the enterprises' role in operating their businesses. The government should truly let enterprises have the authority to run their businesses, including the rights to accumulate their assets and to develop in their own way. To the quasi-governmental enterprises, the

government should give them such operating authority as dealing with the export trade and the transmission of financial assets. The goal is to enable the enterprises to become truly self-governing market entities. In carrying out the "two separations," we need at the same time to strengthen the government's macroeconomic management role, its ability to exercise macroeconomic coordination, and to continuously refine and improve macro management and coordination techniques.

The second issue is to delineate and manage well the relationship between the government and the market. From the standpoint of China's experiences and those of the developed countries in the world, government cannot help but be involved in developing the market, and in helping it to grow in an effective way. What then are the tasks that the government should perform for the market? When the market is in the process of developing, the government should foster and support its growth. When the market has grown to a certain stage, the government's role is to fill in those areas where the market is weak, and to minimize any negative effects of the market. At the same time, based on its macro objectives, the government should proceed to regulate the market. This type of regulation, of course, is mainly applied by using various economic levers. But the government's activities in the market should not be intrusive or excessive, otherwise they would create problems such as damaging the market system, preventing the development of market's functions and obstructing the formation of market entities.

The third issue is to strengthen the government's indirect coordinating role vis-a-vis the national economy, consonant with the development of the socialist market economy. The indirect coordinating role of government should proceed from its overall plan, which includes the government's medium and long term plans, its economic policy, and the various economic levers and legal systems. In the past, implementation of the traditional economic system used basically all four of these aspects. The ways they were used then were different from their current applications in a market economy, and their effects are therefore also different, so it can be said that in China, we are starting from scratch. Therefore, while we change the government's role, we should at the same time change its management approach, for acting on one and not on the other would not be effective. It is the primary role of the central government to regulate the socialist economic system. The most important among its tasks is to guarantee and bring about a basic equilibrium in quantitative and organizational terms between the overall demand and supply in the society, and proceeding from this, to maintain a high degree of stability in the coordinated development of the national economy.

The government's indirect coordinating role, in addition to formulating regulations for the socialist economic

system, should include using appropriate economic policies and levers to make the coordination of socialist economy a reality. The important economic policies include monetary policy, fiscal policy and policy on income distribution. The aim of a monetary policy is to enable the economy to grow, to bring about international balance of payments, and to maintain currency as well as commodity price stability. Therefore, the Central Bank should use various approaches including reserve funds, discount rates, interest rates, exchange rates, and open market operations to regulate capital flow and maintain overall economic equilibrium. In systemic terms, the Central Bank should have the independence in applying monetary policy, while the specialized banks should be enterprise-oriented. Fiscal policies should mainly rely on such measures as budgetary estimates, revenue collections and fiscal subsidies to coordinate macroeconomic activities. The main objective is to achieve economic development and balance of revenues and expenditures; therefore in terms of the fiscal taxation system, it is necessary to clearly differentiate responsibilities of the central and regional authorities with respect to revenues and expenditures at their level, and based on their particular circumstances, adopt appropriate budgetary estimate formats and policies. The main objective of an income distribution policy is to coordinate overall income distribution by means of regulating individual income and taxation to insure a high degree of economic efficiency and equitable distribution of income in society. In terms of using economic levers, the main ones are for the government to use economic leverage over prices, taxes, credit, wages, interest rates and exchange rates, etc., to enable the market operation to conform to the government's macro requirements.

Changing the government's role requires appropriate organizational guarantee and a well conceived organizational system which includes (1) a policy-making system for macro regulations; (2) a system for developing regulations, mainly to translate economic regulations derived from the policy-making system by determining their budgetary feasibility and preparing budgetary estimates and to proceed to coordinate their implementation; (3) a system for oversight inspection and warning, whose main task is to report on conditions of the national economy, and to send out warning signals based on results of inspections and to activate macro regulations; (4) a system for administrative supervision and review, for departments such as inspection, adjudication, and examination all have bearing on the government's ability to macro coordinate, inspect and manage the economy; (5) a system of laws and regulations, whose main objective is to formulate regulations for macro economic managements. On the basis of the functions and duties in the above five systems, government departments should be organized to include and exercise such functions, so that the government and all the functioning departments know clearly their responsibilities, have their common objectives, and wisely and efficiently manage and serve the development of the socialist market economy in China.

### Price Policy in Transforming Large State Enterprises

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[Article by Zuo Yandong (1563 1693 2767) and Cha Risheng (2686 2480 0524) of Jiangsu Provincial Price Study Institute: "Study of Price Policy in Transforming Management Mechanisms of Large and Medium State-Owned Enterprises"]

#### [Text] I. The Price Issue in Transforming Management Mechanisms of Large and Medium State-Owned Enterprises

With regard to the transformation of management mechanisms of large and medium state-owned enterprises, the goals differ between those engaged in competitive business and those whose operations involve no competition. This article deals mainly with large and medium state-owned enterprises of the former category.

Economic reform over the past 13 years has brought a radical change to China's economic system. Enterprises, especially large and medium state-owned enterprises, have made a giant stride toward the end of becoming independent commodity producers and traders. However, the present management mechanisms of large and medium state-owned enterprises still have many drawbacks. In particular, they fail to meet the needs of the socialist market economy. Following are some striking symptoms: Government administration and enterprise management are mixed up, or there is too much administrative intervention in enterprise management. The enterprises' self-management right exists in name only. Their production and operational targets are diversified. In reality, mechanisms for profit-and-loss responsibility, internal incentive, and self-restraint have not been established. Their ability is inadequate to react to the changing market. On the other hand, modification of the price-formation and application mechanisms has a vital effect on overall economic restructuring. Although China's price-formation and application mechanisms have undergone a considerable change as a result of the 13-year reform, there still exist quite a number of problems. These problems are restricting and affecting to a great extent the transformation of management mechanisms of large and medium state-owned enterprises. Chief among the problems are:

- (1) Large and medium state-owned enterprises are not given due power to set prices for their own products. In the first place, there are still too many commodities whose prices are set by the state. Among the three kinds of prices, state-set prices are still used excessively. Statistics show that, in 1990, commodities with state-set prices accounted for 29.7 percent of the nation's total retail sales volume, 25.2 percent of the total agricultural products procurement, and 44.4 percent of the total ex-factory value of capital goods. As of the end of 1990, in Shanghai, where large and medium state-owned enterprises are concentrated, items with

market-regulated prices only accounted for 34 percent of the total ex-factory value of industrial products, while those with state-set prices made up 50 percent. The above indicates that state planning is still playing a relatively significant role in the formation of prices. Second, though the state has announced the decontrol of prices of some commodities, practical action in this regard has been held up by the pertinent administrative departments and competent authorities at various levels, and in fact, price-setting power has not been truly delegated to enterprises. Lack of price-setting power is especially noticeable among large and medium enterprises. Without price-setting power, large and medium state-owned enterprises are seriously hampered from fulfilling their production and operational targets, their dynamism to compete on the market is badly fettered, and they are encountering an unavoidable obstacle in transforming their management mechanisms.

- (2) Unequal price policies are implemented for different enterprises. These policies put large and medium state-owned enterprises in an unfavorable position in price competition. Now, price control on certain commodities applies only to large and medium state-owned enterprises, but not to other enterprises, or the control is exercised more strictly on the former than the latter. In recent years, some price-setting power has been delegated to enterprises, but the benefit received by small enterprises is obviously more than that received by large and medium state-owned enterprises. Large and medium enterprises have to face the difficulty in obtaining raw materials, while the prices of their products are restricted by the state plan. Small enterprises are not subject to such price restriction. This, plus the preferential policies on small enterprises' tax liability and operations, has placed large and medium state-owned enterprises in an even more unfavorable position to meet competition.

The relatively strict price control exercised on the products of large and medium state-owned enterprises and the limited varieties of commodities for which these enterprises are empowered to set prices have resulted in the following phenomenon: The knowledge of these enterprises about the effects of prices remains basically at the level of the product economy. They have no earnest intention of using prices as a competition tool, nor do they have a clear understanding of the rights they deserve under the current economic system. They are unable to formulate and implement a price strategy based on changes in market supply and demand to improve their competitiveness.

- (3) Severe friction in the double-track price system has seriously impaired the economic interests of large and medium state-owned enterprises. Since the double-track price system for capital goods came into being, its shortcomings have been revealed more and more clearly. The major effect of this system on the



interests of large and medium state-owned enterprises can be seen from the unbalanced mandatory plans imposed on their input and output. Prices of products are set by the state, but energy and raw materials are not supplied at state-set prices. A more common phenomenon is imbalance between the proportions of raw materials and products covered by the state plan and outside the state plan and between the proportions of items with state-set prices and items with negotiated prices. For example, the 194 large and medium state-owned enterprises in Wuxi City, Jiangsu Province, get nearly one-half of their raw materials from the market, while their products are mostly sold at planned prices. Another investigation conducted in the Xiangxiang Cement Plant in Hunan Province shows that, in 1990, 70 percent—in terms of quantity—of the raw materials for making cement, including coal, slag, and iron powder, were supplied under the state plan, while 90.8 percent of the cement produced was sold at the planned price, the difference being 20.8 percentage points. The double-track price system has put enterprises in unequal competition environments and created a wide gap between their economic returns. As a result, large and medium state-owned enterprises are experiencing difficulty in their operations. What is more, the categories of planned prices are so numerous and confusing that it is often hard to choose the right one to use.

- (4) Price imbalance between basic products and manufactured goods has not been corrected. This has hampered the improvement of economic returns of large and medium state-owned enterprises. Since the start of the reform and opening-up drive, the state has made several adjustments of the prices of raw materials, energy, and other basic industrial products, and adopted a restrictive or curbing policy toward the prices of manufactured goods. This policy did play an effective role in stimulating the development of basic industries and changing the irrational industrial structure. With the decontrol of manufactured goods prices, however, the previous state of imbalance between the prices of basic products and manufactured goods has come back. Now, the prices of basic products remain at a comparatively low level—this is especially true where the prices are set by the state. Since most of the manufacturers of basic products are large and medium state-owned enterprises, the low prices of basic products have seriously affected the economic returns of these enterprises. For many years, some industries, such as coal and energy industries, have all along suffered across-the-board losses. According to investigation, the Zhengzhou Thermal Power Plant recorded a heat cost of 26 yuan per million kilocalories in 1990, while the heat price specified in the state plan was 10 yuan per million kilocalories. In heat supply alone, the plant lost nearly 8 million yuan in 1990.

- (5) Formation of planned prices is not scientific, nor is price adjustment made in a timely manner. Now, in most cases, the price formula used by the state is cost plus profit at a fixed rate. The drawback of this formula lies in that the cost is hard to define. According to the relevant regulations, fines, confiscated money, and financial levies should not be included in the cost. Under the circumstances where enterprises retain only a very little part of the profits, however, there is no choice but to include the above in the cost when setting the planned price. On the other hand, not everything that should be included is actually included in the cost. With regard to price adjustment, there exists the problem that adjustment is not as timely and flexible as it should be. For some commodities, price adjustment must be examined and approved by several levels of authorities. The procedure is very complicated. Still worse, the approval procedure often spoils the timeliness of price adjustment. It is quite common that when a new price is approved, considerable time has elapsed and the market condition has changed to such an extent that the new price can no longer serve its intended purpose.
- (6) Market operations are in a disorderly and low-efficiency state. Existence of the dual economy and the double-track price system, contradiction between planning and market forces, and presence of power circles, special-relations networks, and friendship groups have brought about the disorder and low efficiency of market operations. For example, some people can obtain special approval to buy low-price commodities included in the state plan and then sell them at negotiated prices to make illegal profits. This has not only obliterated the dignity of mandatory planning, but also disrupted the market order, trampled upon the principle of equality in market competition, and affected the correctness of price signals. It has also increased the costs of market transactions and lowered the efficiency of market operations. The disorderly market condition has presented great difficulties to those large and medium state-owned enterprises that are well disciplined and law-abiding.

## II. Goal of Transformation of Management Mechanisms of Large and Medium State-Owned Enterprises

Based on the needs of the socialist market economic system, the goal of transforming the management mechanisms of large and medium state-owned enterprises should be: orienting their operations toward the market and turning them into commodity producers and traders that can act independently, take responsibility for their own profits and losses, develop themselves, and exercise self-restraint according to law.

To achieve the above goal of transforming the management mechanisms of large and medium state-owned enterprises, certain conditions and requirements must be met. These conditions and requirements are embodied



in three aspects, namely, enterprises themselves, the market, and macro regulation and control:

- (1) As far as enterprises themselves are concerned, they should, under the condition of independent management, orient their production and operations toward the market and switch from multiple operational targets (profit target, employees' income target, and welfare target) to a single target, namely, to earn maximum profit. They should be granted sufficient autonomy in production and operations so that they can strive for survival and development amid competition. Also, they should undertake the risks involved in market competition and be responsible for doing lawful business and for their own profits and losses.
- (2) With regard to the market, there must be a sound and competitive market climate. The role of the market mechanism should be brought into full play. We should ensure the liquidity of production elements on the market and see to it that, through the market, optimum combinations of production elements are achieved so that they can be put to the best use. We should also ensure that products made by enterprises can be sold on the market. In addition, the market should have sound regulations and a perfect setup.
- (3) As to macro-regulation and control, there should be an effective mechanism for indirect regulation and control.
  1. The state should no longer formulate mandatory plans to be implemented by enterprises. Major products required by the state should be purchased by public bidding. Guidance plans are flexible plans that the state formulates on the basis of the needs of overall national economic development and for use by enterprises as reference. The purpose of these plans is to assist enterprises in planning their production and operations in line with the state's industrial policy and economic development orientation. Guidance plans should not be passed down to enterprises for implementation.
  2. Government administration should be separated from enterprise management. Complete segregation of ownership and management should be achieved through institution of the shareholding, contract, and lease systems by enterprises.
  3. The state should conduct economic regulation and control mainly by adjusting the market and the macroeconomic parameters and by guiding enterprises by means of financial arrangements and credit loans.

### III. Price Policy in Promoting Transformation of Management Mechanisms of Large and Medium State-Owned Enterprises

The goals of transforming enterprises' management mechanisms and modifying the price-formation and application mechanisms are both based on the socialist market economic system. They not only harmonize with each other, but also condition and promote each other. If the goal of transforming the management mechanisms of enterprises is not achieved, it is impossible to realize the goal of modifying the price mechanism. Conversely, if the goal of modifying the price mechanism is not achieved, the goal of transforming the management mechanisms of enterprises cannot be fulfilled either. For this reason, if we are to transform the management mechanisms of large and medium state-owned enterprises, we must make further efforts to deepen and accelerate the price reform, modify the price mechanism, and gradually set up a new market-oriented price management system. This is the basic price policy we should pursue in transforming the management mechanisms of large and medium state-owned enterprises.

- (1) Establishment of a price-formation mechanism based mainly on the market price.

The scheme of establishing a price-formation mechanism based mainly on the market price is as follows: Planned prices (including state-set prices and state guidance prices) should apply to a few commodities (also a few types of labor). For most commodities (also most types of labor), prices should be subject to regulation by the market. In either case, the price level should be set essentially on the basis of market condition. The process to achieve this objective is, in essence, a process of linking prices to the market.

To promote the transformation of management mechanism of large and medium state-owned enterprises, it is imperative to accelerate the modification of the price-formation mechanism. Principal measures to be taken are as follows:

1. Different types of prices should apply to different commodities. We should decide which commodities should have planned prices and which should have market-regulated prices. The main principle to be followed is: Planned prices should apply to commodities of a monopolistic nature and used for welfare purposes or commodities with big fluctuations in supply and demand but little price elasticity. To all other commodities, market-regulated prices should apply. The present practice of granting price-setting power to enterprises on the basis of the type of ownership and scale of operations should be done away with so as to create an environment for all enterprises to compete on an equal footing.
2. Prices should be promptly decontrolled for those commodities whose supply and demand are essentially in balance or whose supply exceeds demand, commodities that are not monopolistic in nature, and

commodities whose supply and demand are not expected to have big fluctuations in the future.

3. Efforts should be made to foster and develop various kinds of markets and establish and make perfect a set of market regulations so as to create a sound market environment in which prices can be formed amid competition.
4. The double-track price system for capital goods should be replaced by a single price system. For most capital goods, the price should be the market-regulated price.
5. For those commodities whose prices should be decontrolled but are still set by the state and remain at a low level, we should adopt an "adjustment first" and "decontrol later" measure. We should decontrol these prices only after price parities have been straightened out. This will lessen the social impact and economic fluctuations that may occur when the prices are linked to the market.
6. The overly low prices of energy and raw materials should be adjusted so as to gradually straighten out the twisted price system. A system should be established to check state-set commodity prices periodically and to make price adjustments when necessary. The purpose is to enhance timeliness and flexibility in adjusting state-set prices. When commodities with state-set prices are transferred between enterprises within an integrated conglomerate, the transfer prices should be decided by the conglomerate itself.
7. Coordinated efforts should be made to conduct price-related reforms in the fields of wages, finances, taxation, banking, planning, and commodity circulation with a view to creating a favorable macro-climate for linking prices to the market.
- (2) Institution of a price-regulation and control mechanism with emphasis on indirect regulation and control.

To establish a price-formation mechanism based mainly on the market price, it is imperative to institute a price-regulation and control mechanism with emphasis on indirect regulation and control. This way, we will be able to ensure the relative stability of the general price level and maintain a rational price structure covering all kinds of commodities. We will then be able to promote the orderly and coordinated development of the national economy. To this end, we propose that the following new price-regulation and control systems be established:

1. A market information-collection and analysis system.
2. A macro price-monitoring system.
3. A macro price-regulation and control system.

Indirect regulation and control of the price level may be achieved in three ways: One, adjusting macroeconomic parameters to influence the price level. Examples are adjustment of market supply and demand; control of currency issuance, scale of investment, and wage raise;

and modification of the economic structure, interest rates, foreign exchange rates, and tax rates. Second, using prices as a leverage to control the price level. For example, we may set some reference prices, let enterprises in the same industry decide on the prices of their products through consultation, or adjust the state-set prices. Three, standardizing enterprise activities and keeping market transactions in an orderly state.

**Guo Shuqing on Reform of State Economic Sector**  
*92CE0083A Beijing JINRONG SHIBAO in Chinese*  
12 Oct 92 p 3

[Text] The target paradigm for reforming the socialist market economy must not only clarify a whole series of questions of right and wrong, but in practice must also help further institute various reform measures and programs. This will definitely have a significant effect on the acceleration of the modification of China's economic system.

The concept of a socialist market economy that has been raised is also the culmination of China's profound basic experience of reform in the past 10-odd years. The most important reason behind China's ability to achieve great results in reform has been that the market orientation has been maintained most of the time.

After 13 years of reform and opening up, the mechanisms of China's economy have already achieved initial basic changes, from central planning directives to a foundation of adjusting market supply and demand. The great majority of enterprises have a basic comprehension of and ability to function in the market economy, but their comprehension of and ability to face the risks, particularly state enterprises, does not nearly match up. The commodity market has been mostly established, but it still needs to be further expanded and perfected. The accelerated development of key markets has been placed on the agenda, and is the new key to developing the market. The basic transformation of the government's economic function and mode of management is urgent.

At this stage, the task facing China's economic reform is, in sum, to completely modify the economic system, building on the foundation of all the initial modifications carried out in the past 10-odd years.

To this end, the issues that need solving are:

1. Complete separation of government and business, and the mutual independence of management authority, ownership, administrative authority and macroeconomic control, making possible microeconomic mechanisms of commodity economics that enable enterprises to operate truly independently. This requires eliminating all plans that place controls on enterprises, as well as similar administrative intervention. Even though in the future China may need to retain certain direct quantity controls (such as quotas) in specific areas, those should be directed at industries and not at enterprises.

2. Demarcate and order the relationships between pricing, taxation, fiscal expenditure and bank credit. Pricing that is inequitable and leads to production losses (currently known as policy-related losses) must be made equitable, and such artificial distortions as tax cuts and tax exemptions, financial subsidies, forcible curtailment of bank loans (currently known as suspension of accounts) should no longer be used. These methods have been shown countless times to lead inevitably to chaotic economic relationships and a lack of distinction between responsibilities and rights. They cause production enterprises to lose the motivation to improve management, lead to a loss of seriousness in tax collection and finance, and leave banking systems with no way to conduct business as enterprises. In the future, there may still be a very small amount of business that produces public goods for which, from the standpoint of social benefit, it is impossible to recoup the cost. The state must also institute protective pricing on agricultural products to stabilize agricultural production. In these situations, subsidies must be based on budgetary allocation, and must not be maintained by forcing banks to extend credit.
  3. On the foundation of a commodity economy, reconfigure the basic structure of the employment system, the salary system, social security and the welfare system. Completely change the traditional nationwide job distribution system, change the egalitarian salary system and change the low-wage and high-welfare model that requires the state and enterprises to provide all of the social insurance. Implement an open and flexible employment system and a salary system that fully reflects and represents differences in performance and results. Monetize and open social security and the welfare system and make them jointly financed by employees and enterprises, with the government providing relief assistance only for those members of society who lack the basic necessities of life.
  4. Establish normal relationships between the government and the activities of the market economy. The basic goal of the nation's legislative, administrative and judicial systems is to protect and promote rather than obstruct or destroy the workings of market mechanisms. As the organizer of social consumption, the government can participate in the commodity market; as the owner of state assets, concerned state departments can participate in property exchange markets; as the owner of state lands, the government can participate in the market for rights to lease and transfer land; and as the currency issuing authority, the Central Bank can participate in the monetary market and the stock market. In all of these market activities, the state and its concerned departments, whether or not their goals and motivations match those of other main market elements, must behave according to market regulations. In fact, this is the fundamental difference between indirect macroeconomic control and direct macroeconomic control.
  5. Reconfigure the relationship between the central and local governments to meet the requirements of maintaining and developing a unified national competitive market system and to meet the requirements of the concurrent development of the economy and society. The central government's economic function, aside from building and managing the basic national infrastructure, is basically to carry out unified macroeconomic control; the local government's economic function is to build and manage the basic local infrastructure, and to coordinate and improve the local investment environment. To effectively carry out their duties, the central government's macroeconomic management departments can establish local branch offices according to economic needs. These branch offices have no official administrative relationship to the local government, and are directly responsible to only the government's departments and must not be subject to outside interference.
- Of the above-mentioned major issues, some will affect the economy of collective ownership (for example, some rural enterprises also have problems in further separating the government and enterprises), and will affect the overall operating mechanisms of the entire national economy. But it is also clear that the crux of all the issues is the state economic departments and the management of the national economy. In reality, when carrying out the complete transformation of the economic system, the main reform battle is reforming the state economic departments. If China's economic reform and development achieved initial success during the 1980s, primarily based on the revival of the nonstate economic sector, then to achieve final victory in the 1990s we must make a basic breakthrough in the area of the state economy.
- In fact, we can reach exactly the same conclusions based on an analysis of the issues from the perspective of development. We are facing a new period of transformation in the industrial structure, and we must overcome the "bottleneck" in transportation, communications, energy, raw materials and other basic industries. We need to greatly expand the service sector, particularly education, science and technology, finance and other dynamic sectors. While consumer industries are continuing to be developed, the growth of other investment-based industries and basic machinery production industries must be developed—such as the automobile, airplane, shipbuilding, machine tool, integrated circuit and other industries. The above-mentioned industries are precisely those in which state enterprises have a monopoly or a leading position. The reason why they have experienced more than 10 years of relative stagnation and have fallen behind is that the state economic mechanisms have not been fundamentally changed. If we do not directly initiate a breakthrough so that the state economic sector can revive instead of continuing to depend on the nonstate economic sector to accelerate growth and take its place, then we undoubtedly will have to wait a relatively long time, thus causing a great deal of waste and possibly missing a very opportune period in China's economic development. This is the critical element of this issue.

Furthermore, reform of the state economy is very revolutionary. The very strong nonstate economic sectors, a large proportion of which emerged after the reforms (for example, most rural enterprises, "triple-investment" sectors and private enterprises), do not have the heavy burden of tradition, and the state economy is just the opposite. To the state economy, the reforms were in great measure a kind of self-negation. To get a new lease on life, many state enterprises must change their own status—for example, changing into nonstate public ownership or other mixed ownership enterprises. This will undoubtedly be a painful transformation.

The goal of reforming the state economy is to adapt to the needs of the market economy's mechanisms. This is inevitably a complete reform involving all sectors. Among the most important sectors are:

1. Reform of the ownership system. The concrete goal of this reform is to clarify and determine the property rights of state enterprises. One possible method is for the government to send its own representatives to act as board members or chairmen in these enterprises. But the business world and economists will immediately raise this question: How will these people's behavior differ from that of the old departments in charge? It is difficult to imagine any basic transformation in the enterprises. This method is at most a temporary, transitional method. We believe that the transformation of the ownership system of state enterprises must involve the following plans, depending on different circumstances: a. Industries that are naturally monopolistic should be completely state-owned or state-controlled, and should be managed by personnel sent by concerned government departments. b. For those better-quality enterprises that are not naturally monopolistic, the state should delegate its management to the collective leadership of the enterprise. c. For the great majority of the rest, a model based on intra-enterprise joint stock ownership should be implemented, thus forming a new system in which stock is jointly owned and board members are exchanged.
2. Establish a new system of social insurance. Currently, what is known as the reform of the social insurance system is understood as an internal reform within enterprises. But in fact, the government should become the main leader and organizer of this reform. If the reform is not nationwide, there can be no national social insurance system, and it cannot be considered a reform of the social security system. In designing a new social insurance system, we must pay special attention to the experience and lessons of advanced nations, and must not make the same mistakes of the "welfare disease." Otherwise, after breaking one kind of iron rice bowl, we will create another iron rice bowl. In this respect, Singapore's public revenue fund system is of value to us as a reference.
3. Promote enterprise formation among banks and other financial institutions. What we often refer to as enterprise reform or transformation of enterprises' management mechanisms refers only to industrial and commercial enterprises, and often excludes banks and other financial institutions. However, it has been proven that without enterprise formation among specialized banks, it is impossible for other industrial and commercial enterprises to completely transform their mechanisms. For banks and other financial institutions to become enterprises, the foremost requirement is to separate policy-related finance from the institution. This is the only way to provide the possibility of independent management.

By focusing on the above areas and using this as the centerpiece in carrying out comprehensive, coordinated reform, we can achieve fundamental reform of the state economy and ultimately accomplish the shift to a market economic system.

## PROVINCIAL

### Shandong To Experiment With Urban Residence System

*SK2010102892 Jinan Shandong People's Radio Network in Mandarin 2300 GMT 19 Oct 92*

[Text] The provincial government recently issued a circular on the decision to experiment provincewide with the Shandong provincial local urban residence registration system.

The circular states: Following accelerated reform, opening up, and economic construction, land taken up by state key construction projects, various types of development zones, and urban development projects has greatly increased, resulting in the increase in the number of peasants without land to farm. However, due to the limit in the state-assigned annual quota for nonagricultural status given to agricultural people, most peasants without farming land cannot have their agricultural status changed.

In view of this, the provincial party committee recently issued a circular deciding to enforce, on a trial basis, the system to permit peasants who have no land to farm and who meet the criteria for the state's policy on changing agricultural status into nonagricultural status, to apply for Shandong provincial local urban residence registration. The circular stipulates: In localities where grain and oil price control has not been lifted, people with local urban residence registration will be supplied with rationed amounts of grain and oil from local designated grain departments at the government price with a reasonable amount of expenses added. In localities where control on grain and oil price control has been lifted, people with local residence registration will purchase grain and oil at the same prices as people with nonagricultural status. Job arrangements will not be made for the people with local residence registration

who have found jobs in collective enterprises and township enterprises. We should broaden the avenues for employment, such as establishing collective enterprises or developing the tertiary industry, to place others in the localities where they have their local urban residence registered. We should also encourage them to find jobs independently. Children of the people with local urban residence registration enjoy the same treatment as the children of other urban residents and should enter nearby primary and middle schools. Those who want to enter skilled worker schools will be enrolled after competition on an equal basis. When they are admitted in line with state plan and recruitment policy, they can apply for changing their agricultural status into nonagricultural status. Agricultural tax will no longer be levied from the people who apply for local urban residence registration. The stipulations concerning urban residents of the Shandong provincial family planning regulations will be applied to children born to people with local urban residence registration.

The circular points out: Only peasants without land to farm who meet the conditions of the state policy on changing agricultural status into nonagricultural status can apply for local residence registration. Those who meet the criteria for other state policies on changing agricultural status into nonagricultural status can still apply for urban residence registration according to relevant policies.

The provincial government urged all localities to handle applications for local urban residence registration a group at a time, abiding strictly to policies and regulations. They should not rush headlong into mass action and certainly should not expand the scope of the policy.

### Hubei Speeds Up Economic Development

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[Article by Li Yongchang (2621 3057 7022): "Guan Guangfu (7070 1684 1381), Secretary of the Hubei Provincial CPC Committee, Discusses Accelerated Opening Up and Development of the Hubei Changjiang Economic Zone"]

#### [Text] Most Heartening New Opportunities

"When a favorable opportunity arrives, heaven and earth will cooperate. When the favorable opportunity has passed, even the bravest of men will not be able to have his way."

There is now a tendency that the nationwide movement for reform and opening up is pushing on from the coastal region, beyond its boundaries, to be extended most decidedly into the region along the Changjiang. Particularly the development of Shanghai's Pudong district and the forthcoming Three Gorges Project [TGP], as well as Wuhan's opening to the outside

world, will provide opportunities of historical proportions for the economic development of Hubei. We foresee that Hubei, located at the middle reaches of the Changjiang, will assume a position of greatest significance in the development of China's interior. It will truly be "a chance not to be missed, an opportunity never to return," as the saying goes.

When Guan Guangfu, secretary of the Hubei Provincial CPC Committee, talked this time to reporters in the offices of the Standing Committee of the Hubei Provincial CPC Committee at Shuiguo Lake in Wuchang, he was obviously flushed with an emotional fervor. In an interview that lasted over two hours, he not only informed us in detail on the new understanding, new thinking, and new motivation among the leadership level of the Hubei party committee and the provincial government that had emerged as a consequence of Deng Xiaoping's southern inspection tour this year, but also gave a vivid picture of the blueprint and prospects for Hubei's accelerated move toward a new stage, to become the focal point in the economic zone along the middle reaches of the Changjiang.

#### Clarity in Orientation and Setup

Wuchang was Deng Xiaoping's first stop on his southern inspection tour. In Wuchang's railway station, Deng Xiaoping met Guan Guangfu, also provincial Governor Guo Shuyan [6753 2885 6056] and deputy Party Secretary Qian Yunlu [6929 6663 6922], and he also gave an important talk there. "The spring breeze brings forth green again on the shores of the Changjiang." Guan Guangfu, of course, acutely felt that great opportunities are about to open up for Hubei. He said: "We have all along hoped that the central authorities will extend reform and opening up from the coastal region to the region along the Changjiang. That opportunity has now arrived. If we would allow this opportunity to be missed, we would be condemned for all times to come." As soon as the Spring Festival was over, Guan Guangfu went to work at Wuhan, together with the leadership teams of the provincial party and government, and later made an inspection tour of over a thousand km to western and eastern Hubei, Jingzhou-Shashi, and other places along the Changjiang, to actively study how the opening up and development of the Changjiang economic zone could be stepped up.

The Changjiang flows through Hubei at a length of 1,062 km; the region has abundant resources and is home to 40 percent of the entire provincial population. It produces around 55 percent of the product value and revenue of the entire province. There are 29 cities and counties spread along the river; all the best industries, best products, and best enterprises of the province are basically to be found in this region, as it is also ranks third nationwide in universities and scientific research units. Historically, the middle reaches of the Changjiang have been the birthplace of China's modern industry, as it has also excelled in industrial and agricultural production through the nation. The

region has the greatest potential and presents an excellent foundation for further development.

Guan Guangfu said that Hubei had brought up the question of opening up and developing a Changjiang economic zone six years ago, to work out a Changjiang economic corridor. In 1988, a symposium was held on reform and opening up of a Changjiang economic zone. Against the larger background of the state's overall strategy of coastal development, certain measures were then discussed and studied regarding Hubei's opening to the outside world and its development, and formation of 10 economic development districts was gradually initiated. Now, under the new circumstances, and after further investigations and studies, we can clearly discern the excellent foundation on which to achieve further progress in the development of the Changjiang economic zone. We have gained experiences and further perfected and determined the strategy for our future orientation and for the developmental setup of Hubei's opening up and development. This will comprise: Wuhan is to be the "dragon's head," and with the opening up and development of the Hubei economic zone as the focal point of the undertaking, we shall effectively undertake the opening up and development of the "two rivers" (Han River and Qing River) and of the "two lines" (Beijing-Guangzhou line and Jiaozuo-Zhicheng line), and shall speed up as rapidly as possible the opening up and development of the economic districts of Wuhan, Edong, Jingzhou-Shashi, Yichang, Xiaogan, Xiangfan, and Shiyan, each with its own peculiarities. We shall also energetically concentrate efforts on certain development zones at the provincial level, forming a set of new economic growth points. Our principle will be to integrate selective promotion of the superior with support for the less well endowed, and we shall also continue to support and greatly assist the impoverished regions, in an effort to accelerate their economic development.

#### **Make the "Dragon's Head" Dance and Come to Life**

As Guan Guangfu explained, the strategic decision to open up and develop a Changjiang economic zone in Hubei Province, must give first consideration to gaining a firm grip on this "dragon's head," namely on Wuhan. Wuhan is one of the large metropolises of the country, also one of the important industrial bases of the country. The original value of its fixed assets is 19.7 billion yuan; it has many large- and medium-sized enterprises, as well as universities, colleges, and scientific research institutes. Wuhan has had a reputation as "thoroughfare linking nine provinces," and with its convenient communications, it constitutes in itself a large market. It also has the Donghu high-technology, new-technology development zone, which enjoys special privileges under state policy, and the Zhuankou industrial development zone, where a Sino-French cooperative enterprise will manufacture the Shenlong brand cars at a rate of 300,000 per year; Wuhan is thus indeed enjoying exceptional advantages. Wuhan is now among the cities that have opened up to the outside world, and foreign firms and foreign capital funds are flowing into Wuhan. From January to

June of this year alone, 118 projects with foreign financial involvement have been approved; their total investments will amount to \$263 million; on the average, one foreign-funded enterprise is being dealt with every one and one half day. Past undertakings have comprised everything from real estate development to the issuing of debentures. To further promote Wuhan's vitality, the provincial government allocated 200 million yuan to build up the city's infrastructure. By now, construction has been completed on Wuhan's new railway station and a passenger and freight terminal at Wuhan harbor, and construction is smoothly proceeding at Wuhan's Tianhe International Airport and the Changjiang highway bridge, while Wuhan's "hard environment" is being continuously improved. Wuhan and all the various cities throughout the province pay frequent visits to each other to discuss cooperative opportunities, indeed steering a course of complementing each other's economies, of mutual support, and for common prosperity. As the next step, Guan Guangfu revealed, Wuhan will further expand its bonded areas and develop a stock market, thereby building up Wuhan into the economic, trade, and financial center of central China.

#### **Rendering Service to the TGP To Assist Hubei's Development**

The TGP, which has attracted worldwide attention, will be located within the boundaries of Yichang City. This year's National People's Congress has already passed the resolution to go ahead with the TGP, and preparatory work of various kinds is in progress. Guan Guangfu said, this is an excellent opportunity, one that may occur only once in a thousand years, and one that may now very soon materialize! The TGP is a "lifesaving" engineering project as it will remove the danger of the much mentioned flooding in Hubei, in particular of the Jingjiang River; it is something the people of Hubei have been longing for a long time. Hubei Province, on the one hand, has the unshirkable duty to support the TGP, and on the other hand, the construction of the Three Gorges dam will constitute a static investment of 57 billion yuan, and its dynamic investment is said to reach 120 billion yuan. A very large proportion of these sums will of course be used in local consumption. This will be a momentous opportunity for Hubei, because rendering its services to the TGP will promote developments in relevant industries at Yichang and even throughout the entire province, for instance, in the construction, building materials, metallurgical, machine building, phosphate, and other industries. Construction of the TGP, together with the nearby Gezhouba 2.7 million kw hydropower station, and the Geheyan 21 million kw hydropower station, will make Yichang the largest energy center in China and in the whole world. It is here that there are also the largest phosphate mines of the country. All these things are located along the middle reaches of the Changjiang and are bound to attract projects of a kind that need large quantities of energy, water, and excellent transportation facilities. They will form a new industrial base in which energy resources,

heavy and chemical industries will play a prominent role. In the strategy for opening up and developing the Changjiang economic zone, the TGP will therefore definitely be a hot point when it comes to attracting domestic and foreign investments, to build up Yichang into an opened-up and developing region of considerable proportions, and a series of measures have already been taken for this purpose. Presently, Yichang has become a hot spot, "burning to the touch," in respect of tourism, real estate development, and investments by foreign firms.

#### **Effective Operation of the Development Zone, Fostering Growth Points**

Guan Guangfu furthermore let it be known that in addition to the eminent facts of Wuhan being a "dragon's head" and Yichang having the TGP, Hubei Province is initiating another 10 development and opening-up districts along the Changjiang, where concentrated efforts will be exerted and most significant breakthroughs will be effected to accelerate development and opening up of the whole Changjiang economic zone. These 10 districts will be those of Wuhan, Huangshi, Huanggang, Ezhou, Xiaogan, Shashi, Jingzhou, Yichang, Xiangfan, and Shiyan. These development and opening-up districts have been started as such one after the other since 1988, strictly on the principle of reform at their own expense, in a rotational development, and thus a certain foundation was already laid, making allowances, furthermore, to the peculiarities of each location. At present, the provincial authorities are even more determined to treat these locations as "special zones," and favor them with appropriate preferential policies. For instance, these places will enjoy the rights of a province of the first rank in examining and approving capital construction and technological transformation; personnel hired by foreign-funded enterprises, or personnel dispatched abroad by the Chinese partner for commercial reasons or to visit Hong Kong or Macao, may apply directly to the foreign affairs department of the provincial government for examination and approval, and such trips may be repeatedly made during the period for which approval was given; enterprises within the development zones that earn foreign exchange may preferentially register as enterprises authorized to engage in export trade; all these enterprises may for the first two years retain all their profits, after two years, production-type enterprises shall pay income tax at the reduced rate of 7.5 percent, and after five at the reduced rate of 15 percent.

Guan Guangfu also told reporters with some excitement that Hubei had already completed construction, or is pursuing construction with great emphasis, of some large industrial projects and of some energy sources. Instances are: the joint 300,000-car-per-year venture of the No 2 Automobile Plant with a French firm; the technical transformation at the Wuhan Iron and Steel Corporation to achieve the "double 7 million" (annual production of 7 million tons of steel and 7 million tons of iron); the 400,000-ton-capacity cracking plant for petroleum with

high wax content; the 1.2 million kw Geheyan hydropower station at the Qingjiang river; the 1.2 million kw Yanglo thermoelectric power station; the 1.2 million kw Hanchuan thermoelectric power station, and other such projects. These important and large construction projects are also bound to become new economic growth points, and adding a strong logistic support for the economic development of Hubei. Guan Guangfu added: Because Hubei is an old industrial base, it still has many fixed assets. While it has been emphasized that no time must be lost in starting new enterprises, it is also necessary to steer a course of transforming enterprises, especially large- and medium-sized enterprises, by "grafting" imports on to them, thereby rejuvenating old enterprises. Presently, all localities in the province have prepared lists of enterprises with fairly large operations and possessing superior personnel and technologies, to be presented to foreign firms as suitable for possible joint ventures of this "grafting" type.

#### **The Crucial Point of Straightening Out One's Thinking**

At the time of the interview, Guan Guangfu had just returned from a visit and inspection tour, together with a few other leading party and government cadres of the province, to Shenzhen, Zhuhai, the Zhujiang Delta, Hainan, and Shanghai. He was much moved when he said, now that we had studied Deng Xiaoping's speech about his southern inspection tour, and that we had also investigated and studied the problems in connection with the Hubei Changjiang economic zone, we went one step further and took along some of Hubei's problems as we left the province and did some investigating and studying in the coastal region. We have to say that this trip was a real eye-opener for us, and we have benefited very much from it. All the way we were therefore investigating and absorbing, and on the way we studied drawing up a 20-article opinion for the expansion of Hubei's reform and opening up. On our return, and after repeated discussions and amendments, it has been shaped into a resolution which we are now going to put into effect. After having studied the experiences that the coastal region have had with their reform and opening up, we have gained a deeper understanding of Deng Xiaoping's speech, to the effect that to speed up reform and opening up, the crux is still the liberation of our minds, showing the courage to dare and to risk. Looking at the experiences of Guangdong and the Zhujiang Delta, there is indeed the ability to open up in thinking, in relations to the outside world, and also in matters close at hand. In the past we have understood that opening to the outside world purely meant "importing." As we see it now, it means to take over everything that is good and useful in human society, in the world, including the capitalist countries, and to make these things serve our purposes. The major obstacle in this respect is the problem of designating things as either socialist or capitalist. Once we drop these shackles, our way of thinking will be straightened out. On the other side, we are painfully aware that we have not sufficiently opened up



domestically. The largest obstacles have been our prolonged practice of a product economy, when an ossified organizational system and old concepts of the unitary plan economy had fettered our enterprises with a governmental "waistband." As government administration was not separated from enterprise management, the enterprises lacked vitality. There has also been an insufficient development of markets. Now we have markets for agricultural and sideline products and markets for consumer goods, however, there is no market yet for the key elements of production, no financial market, technology market, or labor market. In our 20-article resolution we have therefore incorporated after detailed studies the good experiences of the coastal region regarding such topics as shifts in the business mechanism of enterprises, promotion of the shareholding system for enterprises, energetic fostering and developing of market systems, developing the tertiary industries, developing the urban and rural collective economy, changes in the functions of the government, active employment of talents, and other such aspects. We have then, with due consideration of the actual situation in Hubei, decided on realistic and feasible methods and policies, which have met with a welcome reception by high and low throughout the province.

Looking forward to the prospects for the Changjiang economic zone and even for the overall reform and opening up in Hubei Province, Guan Guangfu displayed optimism and confidence. Quoting figures, he demonstrated: Comparing the first half of this year with the same period last year, gross value of industrial output increased 12.3 percent, the value of completed exports of industrial products increased 61.1 percent, actual profits of industrial activities increased 22.2 percent, and the range of increases was larger than during the same period last year. It is particularly gratifying that in the budget the profits achieved by state-run industry increased 26.6 percent, which was 11.8 percentage points above the nationwide average and ranked third in the range of increases throughout the nation. Opening to the outside world was further expanded; for the period from January to May, exports increased 22.2 percent, newly operating foreign-funded enterprises and imported foreign capital have more than doubled compared with the same period last year. Investments by foreign-funded enterprises is already exceeding \$800 million.

Finally, Guan Guangfu expressed his belief that "fate and soil" are favorable for Hubei. High and low throughout the province are all aware of the accelerating pace of reform and opening up and of our efforts to advance to a higher level of economic development. Enthusiasm is high, and in this second wave of nationwide reform and opening up, Hubei will certainly be in the position expressed poetically as: "There will come a time of strong wind, opportune to brave the waves, just raise high the sail and venture out across the vast ocean."

### Wuhan Becomes New Opening Up Hot Spot

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[Article by Zhan Zhongde (6124 0112 1795) and Jin Feng (6855 7364): "A New High Tide of Opening Up Surges Forth at Wuhan"]

[Text] Today opening up has become the hottest issue in Wuhan. It is on the lips of all government agencies and all the people in the street. "Bring us closer to the coastal region!" This is the urgent call from cities along the Changjiang in the hinterland of mainland China as these places endeavor to catch up with the coastal region, which has had the advantage of a head start in development. The new high tide of opening up will have Wuhan again resume the stature of the largest international metropolis in the center of mainland China, opened up, playing an important role in many diverse ways, and modernized.

### Again a Hot Spot of Opening-Up Activities

Wuhan has held a special position in China's history. At the end of the Ming and during the early years of the Qing Dynasty, Hankou was reputed to be one of the four famous cities of the empire. After the Opium War, Hankou was opened to international trade. Under the stimulation of foreign capital, modern industries for military and civilian uses quickly developed. Of these, the Hanyang Iron Works was not only China's largest modern metallurgical enterprise, but also second to none throughout the Far East. From 1890 to 1911, there were 17 government-run and joint government-private-run factories in Wuhan, which made up 17 percent of such enterprises throughout the country, Wuhan having thereby risen to one of the foremost regions in the later years of the Westernization Movement. During that period, a hundred factories of all kinds were built, so that in this respect Wuhan ranked second in the country, only after Shanghai. Over 7,000 trading establishments, belonging to eight large trade associations, such as the tea, medicine, and grain trades, were concentrated in the commercial center of Hankou.

At the same time, Wuhan's banking business, modern communications and transportation, postal and telegraph services rapidly developed. Shipping companies from 10-odd countries, among them the United States, Britain, and Japan, initiated shipping services with Wuhan. The Japanese Osaka Shosen Kaisha alone had three ships plying between Hankou and Osaka regularly all year round. With its flourishing steady domestic and foreign trade, Wuhan ranked second in the volume of foreign trade all year round among China's five large trading ports. Its commerce made its influence felt toward the east to as far as Jiangsu and Zhejiang, toward the south to Hunan, Guizhou, Guangxi and Guangdong, to the west through Sichuan and Yunnan to Tibet, to the northwest to Shaanxi, Gansu, Ningxia, Qinghai, and to the north it had links with Shanxi, Hebei, Shandong, and



Henan. The Wuhan of those days was indeed a large metropolis of decisive influence throughout the entire Far East.

After the 1950's, Wuhan still maintained an important position nationwide. By 1985, among the cities with provincial-level decision-making authority, the gross value of Wuhan's industrial output ranked second, only behind that of Guangzhou, and ranked first in providing profit and tax revenue to the state. However, with implementation of the policy of favoring developments in the coastal region, when Guangdong advanced far ahead with its opening up, when Jiangsu and Zhejiang achieved rapid growth, Wuhan's output value immediately tumbled down several positions in the nationwide ranking, and its role as a specially large key city declined correspondingly.

The resolution of the central authorities to develop and open up Pudong and go ahead with the Three Gorges project on the Changjiang has had Wuhan again face the opportunity of a great development through its own opening up. By taking Pudong as the "dragon's head," and by making full use of the Changjiang as a "golden waterway," China is currently bringing its strategic concept gradually to fruition, namely to create an economic corridor along the Changjiang from Shanghai, through Nanjing and Wuhan, to Sichuan. Vice Premier Tian Jiyun said that Wuhan was the first to be considered by the central authorities when it came to open up the cities along the Changjiang, and Wuhan was then finally indeed included in the line of cities along the Changjiang to be opened up.

#### **Rather Abrupt Heating Up of the Economy**

Wuhan's economy heated up rather abruptly in the wake of its opening up. The new technology development zone, which occupies an area of 24 square km at the Donghu Lake, became a hot spot for foreign investments. In the past half year, 22 enterprises were set up there as joint ventures with foreign firms. Infrastructure is now hurriedly being put into place at the two science and technology parks, the Guandong park and the Guannan park, while 400 mu of land made available previously have been completely sold out in a big rush. At the Wuhan economic and technology development zone, the Shenlong Automobile Co., Ltd. was officially established, based on a Sino-French joint venture for the annual production of 300,000 sedan cars. Previously, the infrastructure had been completed for 5.5 square km of land for commercial use, and the first group of nine enterprises have already established themselves on this plot. Here, the French Citroen Company will collaborate with the Chinese No. 2 Automobile Plant to manufacture the French company's 1991-style ZX-type cars. Presently, the first lot of components has already arrived, and the first car was completed in August. Regular production will start in 1996, and by 1997 annual production capacity will be 150,000 cars, while ultimate annual production capacity will reach 300,000 cars. This is also presently the largest French investment in China.

In August of this year, the first lot of five berths for 5,000-ton-class ships in Wuhan harbor to be available for

foreign shipping were inspected and accepted by the state, and officially made available for foreign ships. An unprecedented upsurge has occurred in foreign economic relations and trade. Exports during the first half of the year have achieved foreign exchange earnings of \$210 million, an increase of 30.1 percent compared with the same period last year. Use of foreign capital has increased rapidly; during the first half of this year, 118 foreign-funded enterprises were established throughout the municipality, with investments of almost \$300 million, and these increases were three times and 6.8 times larger, respectively, than those during the same period last year.

An analysis of Wuhan's "abrupt upsurge" by economic circles in this field has indicated that the intensity of investments by foreign firms has markedly increased. Since March, on the average one joint venture enterprise was checked and approved every day. The total number of joint venture enterprises during the year could exceed 300, which would exceed the total during the past 10 years. Investors are also beginning to go beyond the past pattern of primarily investing in medium and small-sized companies. They now include such large financial groups as the Cheng Ta Group of Thailand and the Kowloon Warehouse Group of Hong Kong. They are coming one after another to Wuhan for investigation and negotiations. Transportation facilities, energy supply, and communication facilities are all points that have the attention of the foreign businessmen. The scale of investment is also increasing by the day, and more than 20 items now under discussion involve investments of over 100 million yuan.

#### **"Take a Big Step Forward, Take a Shortcut"**

The only way for Wuhan to catch up with the cities in the coastal region, which have had the advantage of a head start, is to "take a big step forward" and "take a shortcut." In the last 10-day period of June, the establishment of the Rongze Printing and Dyeing Industry, Ltd. was officially announced, set up as a joint venture by the No. 2 Printing and Dyeing Mill of Wuhan and the Hong Kong based Hungtahang Co., Ltd. The Hong Kong side is to hold a controlling 51 percent of the shares, which was breaking for the first time the taboo of allowing a foreign partner to hold a controlling interest. The official attitude in this matter was explained by Qian Yunlu [6929 6663 6922], deputy secretary of the Hubei Provincial CPC Committee and concurrently secretary of the Wuhan Municipal CPC Committee, who attended the inaugural ceremony. On the same day, Li Pan [2621 4323], deputy director of the Wuhan City Government's office of the leading team for opening to the outside world, announced to news reporters, who had come to interview him: Wuhan City will select 100 enterprises every year and by means of auctions, share participation, cooperative investments and other forms evoke investment interest among foreign firms. In the first half of this year, over 110 joint venture enterprises have been set up, and in the case of 40 enterprises, cooperation concerned old existing enterprises. Wuhan did not limit the transformation of old enterprises by the induction of new

capital to cases of unprofitable enterprises, but included enterprises in best conditions, and the area for opening up was not limited to industry, but included also primary, secondary, and tertiary industries.

In March of this year, Wuhan set up a leading team office for opening up to the outside world to guide functional departments, such as the foreign economic relations and trade committee, the planning committee, the economics committee, the construction committee, the maritime customs, industry and commerce, the tax administration, and the banks, in the interest of concentrated operations and well-coordinated action, thereby most markedly raising work efficiency. There came a telephone call from the Changfei Optical Fiber Company, a Sino-Dutch joint venture: The water supply had stopped at the houses of the experts. A water wagon was immediately sent to deliver water right to their doors. When imports of equipment for a joint venture were held up, one telephone call from the opening-up office and the customs released the goods. When some Taiwanese businessmen started an amusement enterprise at Hankou, the work process was repeatedly obstructed, but the difficulties, that had been pending for eight months, could be resolved in a 75-minute on-the-spot action.

Wuhan's infrastructure, which had also been opened up, is being rapidly improved. The No 1 runway on the Tianhe International Airport in the northern suburb of Wuhan will officially be opened for air traffic at the end of next year. It is planned for an annual capacity of 4.2 million persons, which is five times the capacity of the present Nanhu Airport, and with a saturation capacity that will reach 10 million persons. The Wuhan Changjiang highway bridge, which will be completed and ready for traffic in 1995, will connect the airport in the north with the Hankou railway station, and in the south it will be a connection to the Hongshan political and cultural center. The Donghu Lake development zone and recreational district will form an inner traffic circle with the Changjiang bridge, diverting 51 percent of the present traffic. The Yangluo power station located on the northern shore of the Changjiang, with a total installed capacity of 1.2 million kw, will have its first generating unit of 3,000 kw capacity ready within a year to supply electricity over a combined grid, and the difficulty of obtaining electric power will then be resolved. Presently, 130,000 program-controlled telephones are already in operation throughout the city, which enable direct dialing to over 150 countries and territories, and domestically to over 900 large- and medium-sized cities.

Mayor Zhao Baojiang [6392 1405 3068] of Wuhan City said, we must work even faster so that at the coming turn of the century we shall have built Wuhan up into the largest international metropolis, opened up, playing an important role in many diverse ways, and modernized. This objective assumes that in the year 2000 the total value of the city's output will reach 45 billion yuan, its gross social product will exceed 100 billion yuan, and the gross per capita output value will be as high as around 6,000 yuan.

### Jiangsu Economy Along Changjiang Booming

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[Article by Mou Weixu (3664 4850 2485): "New Posture in Building Economic Strip Along Changjiang in Jiangsu"]

[Text] In February Comrade Deng Xiaoping transited at the Nanjing railroad station on his way back to Beijing from his trip to the south. He took a break on the station platform and walked around. Even though his stay at the Nanjing railroad station was not long, he listened carefully to a report on the development of Jiangsu Province's economy. After hearing the report, this master architect of China's reform and opening to the outside world said gravely as though lost in thought: "Too slow, too slow..."

Not long afterward, the key points of Comrade Xiaoping's remarks on this trip to the south were reported: "We must strive to move up a step in China's economic development every few years. ...for example, rather well developed places such as Jiangsu must develop faster than the national average."

Jiangsu, this "economic giant" whose industrial and agricultural gross output value held first place in the country for many years in a row, feels an enormous stimulus and responsibility.

Stimulus: Must walk with measured tread neither hastily nor slowly.

Responsibility: The need to make a new journey in the great surge of a new round of reform and opening to the outside world.

### Challenge From Both the South and the North

During the 1970's and the early 1980's, Jiangsu made a historical change from a primarily agricultural economy to a primarily industrial economy. It entered the initial stage of the mid-phase of industrialization, becoming a new giant on China's economic stage.

However, the challenges that this giant faced during the tempestuous period of a new round of reform and opening to the outside world were fairly grim. Its "adversaries" came from Guangdong in the south and Shandong in the north.

Up until the 1980's, Jiangsu held the upper hand over Guangdong in scale, strength, and speed of economic development. Later on, Guangdong gradually caught up with and surpassed Jiangsu in every particular by dint of good weather, fertile soil, and constant updating of ideas. In 1989, Guangdong's 131.167 billion yuan GNP surpassed Jiangsu's 123.28 billion yuan, Guangdong taking for its own the gold medal that had formerly been Jiangsu's. Guangdong's 13.687 billion yuan in fiscal revenues beat out Jiangsu's 12.401 billion yuan in 1989, and Jiangsu led Guangdong in per capita income as well

during the 1970's. By 1989, Guangdong had left Jiangsu in the rear. Likewise, in speed of development, the rate of increase in Jiangsu's GNP and national income were both higher than Guangdong's from the Third through Sixth Five-Year plans, but by the end of the Seventh Five-Year Plan, Guangdong led Jiangsu by 4 percentage points.

If one says that Jiangsu cannot match Guangdong in the "special policies and flexible measures" that it enjoys, then what about a comparison with Shandong whose economic environment is about the same as Jiangsu's?

For the lumbering hulks from Shandong to overtake the fleet-footed people of Jiangsu is a cause for embarrassment. In 1978, Shandong was below Jiangsu in both GNP and national income, but by 1991 it had surpassed Jiangsu in both areas, its GNP becoming the second largest in the country after Guangdong, and its national income ranking first in the land.

Jiangsu became a "third rater" after Shandong and Guangdong.

The people of Jiangsu who had only two gold medals left—one for agricultural gross output value, and the other for industrial gross output value—could not sit still. They studied the experiences of Shandong in the north, and Guangdong, Fujian, and Hainan Provinces in the south in an effort to come up with a plan for recouping their former prestige. After publication of Comrade Deng Xiaoping's remarks during his trip to the south, the whole province's confidence and courage in daring to try and daring to forge ahead intensified.

Not long ago, Jiangsu readjusted its economic development objectives as follows: By 2000, GNP is to reach 301 billion yuan, which is 2.07 times the 145.1 billion of 1991 for an annual average 12 percent increase. Per capita GNP is to reach 7,500 yuan, the people becoming "comfortably well-off" earlier than anticipated.

This naturally richly endowed and affluent land of Jiangsu will break free from the security-seeking frame of mind embodied in the phrase "to be comfortably well off is to be content" to begin a new take-off.

#### Advantages Along Both Sides of the Changjiang

If one says that Guangdong's and Shandong's advantage lies in being along the sea, then the people of Jiangsu clearly realize today that their advantage lies in being along the Changjiang.

The main channel of the Changjiang courses through Jiangsu for 425 kilometers. Along its shores lie the seven provincially administered cities of Nanjing, Zhenjiang, Yangzhou, Changzhou, Wuxi, and Suzhou, 23 counties, and 14 county-level cities. This is one of the parts of China having the greatest density of population, cities and towns, and economic life. It is known as the "golden triangle."

It borders Shanghai in the east, is connected to all the provinces in the upper reaches of the Changjiang to the west, and incorporates a "golden waterway" and a "golden seashore." It is also traversed by the Beijing-Shanghai Railroad, the Grand Canal connecting Hangzhou with Beijing, and the Shandong-Ningbo oil pipeline. It is both the best location for development of Jiangsu's economy, it is also a crucially important strategic point in the development and opening to the outside world of the Changjiang Delta and the economy along the Changjiang.

This area has abundant nonmetal mineral resources, water resources, and tourism resources. Speaking of tourism, its natural scenery and the cultural sights add radiance and beauty to each other. Of the seven provincially administered cities along the Changjiang, Nanjing, Suzhou, and Yangzhou were in the first group of famous historical and cultural cities that the State Council published. The other four cities all have a more than 2,000 year long history with the exception of Nantong, which is fairly young. Along the Changjiang, there are three national level and four provincial level scenic areas, and four national level forest parks.

This area has a strong economic base. In 1991, the GNP of the seven cities along the Changjiang totaled 114.1 billion yuan, more than the GNP for Shanghai (85.2 billion yuan), Zhejiang (94 billion yuan), or Liaoning (107 billion yuan). Per capita GNP was 3,015 yuan, 42 percent higher than the provincial average.

The two large commodity bases in the Tai Hu and the Lixia He Basins are well-known lands of plenty.

This is also the birthplace of the new force that has suddenly come to the fore in China—township and town enterprises. In 1991, township and village industrial output value here reached 133.5 billion yuan, 4.4 times the gross agricultural output value. Among the 22 counties and cities of Jiangsu Province that have become "excellent rural counties in overall strength," 21 lie along the shores of the Changjiang, including Wuxi, Wujin, and Jiangyin counties, which rate gold, silver, and bronze medals respectively. A substantial infrastructure has taken shape here. Ten large electric power plants having an installed capacity of 5.54 million kilowatts have been built along the Changjiang, and another 2.9 million kw capacity is being hurriedly built. There are 260 kilometers of deep-water shoreline to a depth of 10 meters or more, including nearly 100 kilometers of superb shoreline where deep water anchorages can be built. Approximately 30 kilometers of the deep water shoreline is now being used, the construction including 270 harbor anchorages for 42 10,000 ton class wharves. These include the Nanjing, Zhenjiang, Jiangyin, Zhangjia, and Nantong ports, all of which are open to foreign ships. The Shanghai-Ningbo Railroad, and a second class Shanghai-Ningbo railroad have been built parallel to the Changjiang. A high-speed highway between Shanghai and Ningbo, a first class highway between Nanjing and Nantong, and the northern Jiangsu Railroad are also being built. There are five civilian passenger and

freight take-off and landing fields, and 420,000 program-mable telephones. Once construction of the mobile communications network along the Changjiang is finished in 1992, it will cover the seven provincially administered cities and 33 counties and cities.

Even more importantly, prefectures along the Changjiang in Jiangsu have 59 institutions of higher education in which 122,000 people are enrolled. Research organs at the county level and above number 254, and technical development organs in large and medium size enterprises number 659. Technical personnel at the assistant professor and senior engineer level or above total 28,000. Radio and optical fiber communications, large scale integrated electrical circuits, war industry technology, biological engineering, and astrogeology hold an important place in China that is equal to the rest of the world.

In short, this area holds both a powerful attraction for foreign industry and technology, and also has abundant strength for stimulating economic development throughout the province and over a wider area. As Jiangsu Provincial Governor Chen Huanyou [7115 3562 0645] said: If opening to the outside world is compared to a lever for speeding up the economic development of Jiangsu, then the fulcrum of that lever is the Changjiang economic corridor.

#### **Blueprint in Process of Unfolding Completely**

"Opening up the Changjiang, working in concert with Pudong, linking the east and the west, and mutual assistance between the north and the south"—this is the new mission that the age conferred on this place in the 1990's.

To make maximum use of the resource that the "golden waterway" is, and to use to the full the various advantages mentioned above, the joint development of the economic zone by the seven cities of Jiangsu along the Changjiang is fully underway.

**Nanjing:** After continuing the investment of hundreds of millions of yuan during the 1980's to open up 16 "bottleneck" sections of highways leading into and out of cities, Nanjing decided to invest another 2 billion yuan in eight more major projects as follows: a circumferential highway around the city, a first class highway between Nanjing and Lianyungang, a limited access first class highway between Nanjing and Yangzhou, the Nanjing Changjiang highway bridge, a second class highway for motor vehicle use only between Pukou and Baguazhou, and the Nanjing new airport road. Underlying these projects through which the word "access" runs is the strategic concept of building an open, modern, international metropolis having close interchange between China and the outside world.

**Zhenjiang:** The five square kilometer economic and technical development zone of Zhenjiang City is already saturated; it is now expanding along the Changjiang, and once it becomes continuous with the port industrial

zone, it will total 20 square kilometers in area, the equivalent of building another Zhenjiang City.

**Yangzhou:** The building of another Yangzhou in 10 years has become the great aspiration in this city's economic development. This is to be done by using as a turnkey the petrochemical product arena that its organic chemical industry produces, and through harbor industries such as shipbuilding, ship repair, and the breaking up of ships.

**Suzhou:** Eighty-five percent of the 166 township and villages in Suzhou have drawn up industrial zone plans. About 50 percent of these have moved to the implementation stage, and about 15 percent of the township and town industrial zones have begun to take shape. Most of these industrial zones have transportation arteries as their axis, are located in local cities and towns, and are based on business enterprises already in being. Most of the enterprises going into these zones are three kinds of partially or wholly foreign-owned enterprises, technologically advanced enterprises, and fairly large scale enterprises.

**Wuxi:** A "four tracts and one center" development pattern is taking shape here, meaning a tract in the south of Wuxi that is mostly for industrial development; the Mashan development zone tract, which is largely for high and new technology development and for tourist retreats; the Taodu tract in Yixing, which is primarily for construction materials, porcelain and ceramics, and environmental protection; the Binjiang tract in Jiangyin, which is mostly for the development of industrial technology; and the Hubin service center which mostly contains consulting, finance and banking, and relaxation services.

**Changzhou:** A four square kilometer development zone beside the Changjiang is being planned on a foundation of industrial village development, which has begun to take shape in the northern part of the city. In the three counties of Changzhou, the Hengshanqiao spark plan technology development zone, the Longhutang high and new technology development zone, and the Benniu Comprehensive Development and Experimentation Zone have been built in Wujian; in Jintan County, ground has been broken for the 14 square kilometer "Hualuogeng Science and Technology City"; and Liyang City has built the four square kilometer Kunlun New Technology Industrial Zone.

**Nantong:** Use of a port to build a city distinguishes this city's development of the economy along the Changjiang. The goal for the 1990's of this city, which has more than 400 kilometers of sea and river coastline, is to build a dispersal port for Shanghai, a major materials collection and distribution base for the Changjiang Basin, a major industrial and foreign trade base for the Changjiang delta, and a key city in northern Jiangsu. In connection with this goal, the city decided to enlarge its economic and technical development zone. It will extend the old municipal area eastward in the gradual shaping of a new municipal area

extending for 24 kilometers along the Changjiang. Port industry will be this city's main industry.

Of particular note is the building of Lusi Port. Lusi is 32 nautical miles from the point where the Changjiang flows into the sea and 30 nautical miles from a main international shipping lane. It looks out across the sea to Japan and South Korea. Here there are deep water anchorages for 25 kilometers along the shoreline where more than 100 piers of the 10,000 ton class and above can be built, the largest of which will be able to accommodate 100,000 vessels. This is an ideal choice for the construction of a deep water port in China in addition to those at Hong Kong, Ningbo, and Dalian. By building a canal between Lusi and Nantong, huge ocean-going ships can detour around the sandbar at the mouth of the Changjiang and enter the Changjiang without waiting for high tide. Development of Lusi Port will also help the rational distribution of shipping to the middle and lower reaches of the Changjiang, and to eastern coastal ports. It will make an "oriental Rotterdam" in which the port of Shanghai is at the center, with Beilun in the south and Nantong and Lusi in the north. Validation of Lusi port's development plans is being carried out feverishly. The main particulars in the plan are as follows:

First is the construction of a 250,000 ton class single point mooring project for the transfer of internationally-shipped crude oil that can accept 15 million tons per year of Middle East crude. This facility will augment the insufficient supplies of domestically produced crude oil for the refineries along the Changjiang, and meet the needs for Pudong development. Second is the building of a 40,000 ton class raw coal transfer wharf to handle the transfer, storage, and shipping of coal in Jiangsu and to Shanghai. Third is construction of a 3.6 million kw thermal power plant to ease the power shortage in the east China region; and fourth is construction of a 50,000 to 100,000 container wharf to complement the development of Pudong and to handle the spill over from the Shanghai port.

Concrete actions to date on opening to the outside world include planning for the construction of 86 development zones for foreign trade investment north and south of the Changjiang to attract \$2 billion in foreign capital. Ninety percent of all the business enterprises in which foreign businessmen have invested in the province are concentrated in the seven city open zone along the Changjiang. These cities account for 91.4 percent of the entire province's total foreign trade purchases. Here more than 100 high technology projects have been built that produce an output value of more than 10 billion yuan per year.

A magnificent blueprint is gradually being turned into reality along the shores of the Changjiang.

#### **Choice of a Large Market Orientation**

Accelerate the pace of reform, and shape a new mechanism for operating the economy that consists mostly of market regulation. What was still only a hazy idea yesterday has become a distinct rallying cry today.

This is not spending energy chasing after the modish, but a conscious choice based on a large population, the small amount of land, and the shortage of resources in the prefectures along the Changjiang in Jiangsu.

For a fairly long time, the output value of national and top provincial level command plan products have accounted for only 10 percent of Jiangsu Province's gross industrial output value; and the amounts of coal, processed steel, and lumber that Jiangsu has supplied for state plans has been 20, 10, and only 3 percent respectively. Approximately only 20 percent of total social commodity retail sales have been state and province controlled and regulated. Clearly, main reliance has been placed on the market for production and commodity circulation. Business enterprises would find myriad difficulties surviving outside plan, but it has been just such a special circumstance that made them acquire the ability to maneuver their ships through the stormy seas of the marketplace, and to infuse the province's economic development with vim and vigor. Now, Jiangsu has clearly placed the building of a new mechanism that is largely market-regulated on its daily agenda. This is, no doubt, a wise move for timely adjustment to the circumstances.

A series of new measures are being readied for implementation. During 1991, Jiangsu ruled in favor of 20 enterprises participating in pilot projects for the development of the shareholding system, and it chose 15 enterprises for the running of pilot projects for opening to the outside world. It put into effect pilot projects for the total contracting of inputs and outputs in 43 large and medium size enterprises. In addition, the province vested eight province-level cities along the Changjiang with the economic control authority of province-administered cities, and it transferred from the provincial level to the city and county level control over the establishment of government agencies, personnel staffing, work force wages, and fiscal relations. Provincially-administered cities, cities having provincial-level economic decision-making authority, and more than 130 foreign trade companies under county jurisdiction now have this authority. A price formation mechanism that is guided largely by market supply and demand, and a price control mechanism in which enterprises setting of prices and indirect macroeconomic regulation and control are dominant are in the process of formation. Jiangsu Province has decided that except for a small number of important commodity prices having a bearing on the national economy and the people's standard of living, all others are to be basically decontrolled. No jurisdiction or government department may expand the scope of its price control. It is estimated that social commodity sales in the province for which prices will be decontrolled will increase from the approximately 70 percent of 1991 to 82 percent or more.

Yet another feature of Jiangsu's economy is the dependence on foreign countries for the supply of materials needed for industrial production and the sale of products. With the rapid development of processing industries in inland provinces where resources are located,

development of Jiangsu's economy has become increasingly limited by both the supply of resources and markets.

Therefore, use of resources from both inside and outside the country, the opening of markets both inside and outside the country, and vigorous development of an externally-oriented economy have become a urgent need for Jiangsu, particularly for the economic development of areas along the Changjiang.

By way of making greater strides in this direction, throughout 1991 Jiangsu further simplified approval procedures for projects using foreign capital. The area for use of foreign capital was expanded from ordinary processing industries to the building of major infrastructure projects, large retail businesses, and finance and banking institutions. During the first half of 1991, another 1,830 three kinds of partially or wholly foreign-owned enterprises were set up in the province, \$227 million of foreign capital being used. This was 3.4 times as many new enterprises and 1.4 times the amount of foreign capital than in 1991. A fine situation of development by leaps and bounds also occurred in foreign economic relations and foreign trade. Forecasts call for a increase from \$26.22 billion in 1991 to \$100 billion in foreign trade purchases by areas along the Changjiang, an increase from \$10 billion to \$15 billion in the aggregate use of foreign capital, and between 35 and 40 percent of the economy being externally oriented.

If its domestic and foreign markets are to be in an invincible position, Jiangsu will have to be active in developing high and new technologies as a means of fostering new growth points and commanding the technological heights of the industries of the future. This is already the consensus of knowledgeable people in Jiangsu. At the present time, there are high and new technology development areas along the north shore of the Changjiang at Nanjing, Pukou, and Nantong. Plans call for the output value from high and new technology products to account for 10 percent of the province's gross industrial output value by the end of the Eighth Five-Year Plan, and technological progress will contribute 40 and 50 percent respectively to the increase in the province's industrial and agricultural gross output value.

The first inkling of a new dawn has already appeared. Under the new situation of accelerated reform and opening to the outside world, and economic development, during the first half of 1992, independent accounting enterprises at the township level and above in Jiangsu Province saw a 20.7, 26.5 and 25.5 percent increase respectively in output value, sales income, and profits and taxes realized, speed and returns increasing together.

A few days ago, the Jiangsu Province Economics Association assembled more than 20 theoreticians and people involved in actual work to discuss a major program for Jiangsu's economic development. The attendees concluded on the basis of the current situation that the speed of development of Jiangsu's economy is already greater

than that of the "four small dragons" of Asia (Hong Kong, Korea, Singapore, and Taiwan), and has reached the critical point for economic take-off. On the basis of conditions and possibilities, by the 2030's, per capita GNP in Jiangsu will catch up with the per capita GNP of Korea and Taiwan. By 2050, it may catch up with the per capita GNP of Hong Kong and Singapore. The Suzhou-Wuxi-Changzhou area, which is the finest area of the province, may reach this goal about 10 years earlier.

Step on the gas, Jiangsu!

## FINANCE, BANKING

### Shanghai Stock Exchange Develops Rapidly in 1992

OW0412021492 Beijing XINHUA in English  
0052 GMT 4 Dec 92

[Text] Shanghai, December 3 (XINHUA)— The Shanghai Stock Exchange has developed rapidly in 1992.

According to general manager Wei Wenyuan, compared with 1991 the member enterprises of the exchange rose to 164 from the original 49, computer terminals used in the exchange increased from the former 46 to 560, varieties of listed stocks expanded from eight to 38; meanwhile, share holders rose to 1.2 million from the former 30,000, and the daily transaction volume amounted to 60 million U.S. dollars from last year's five million U.S. dollars.

The manager said that there are 29 share-holding companies listing 38 kinds of shares on the exchange, nine of which are B shares. Of the listed stocks, some 30 percent are circulated on the market.

Wei said, at present there are many state enterprises in the city that have applied for implementing the stock system, and he believed that there will be more share-holding companies listed on the market.

He said that at the end of 1992 and early next year Shanghai will issue two to three new B shares in Hong Kong and will seek development on the European and American markets.

### Mao Yingliang on Shanghai Financial Reform

93CE0080A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese  
No 37-38, 28 Sep 92 pp 37-38

[Text] Mao Yingliang [3029 2019 2733] an experienced Shanghaiese financial entrepreneur, was, years ago, the president of the Shanghai branch of the Industrial and Commercial Bank of China. I have had numerous dealings with him. Last year, Mao Yingliang was posted as president of the Shanghai branch of the People's Bank of China. Recently, I, accompanied by Mr. Li Xinsheng [2621 2450 3932] who is the assistant operations supervisor of the SHANGHAI JINGJI journal, met with Mao Yingliang for a special interview that Li Xinsheng helped

to arrange. The topic of the interview was financial reform in Shanghai. Ping Guorong [1996 0948 2837], the administrative head of the bank's Shanghai branch, was present during the interview. Ping Guorong, a young, high-ranking economist, is President Mao's able right-hand man, and during the course of the interview, he frequently interjected items of precise data.

#### **A New Financial System Is Gradually Taking Shape**

President Mao began by discussing Shanghai's position. Shanghai is China's largest metropolis. In the 1930's, due to economic and geographical superiority, Shanghai became the center of finance and trade in the Far East. With numerous financial organizations and a booming business climate, Shanghai handled 50 percent of the world's capital, giving the city a certain clout on the international financial stage.

For historical reasons, several decades following the establishment of New China saw Shanghai hold merely a position as an industrial center, while its functions as a center for finance and trade steadily diminished. However, Shanghai still had superior geographic and economic conditions, and its position remained a decisive one. With the reform liberalization and commodity economy developments that came in the wake of the Third Plenary Session of the 11th CPC Congress, Shanghai's financial industry acquired a new vitality, and a new socialist financial system gradually began to take shape. Moving away from the financial system single-handedly run by the People's Bank of China, a new financial system was gradually set up after 1984 that took its lead from the central bank, recognized as main players the specialized state banks, and saw the co-existence, mutual cooperation, and concerted growth of numerous types of financial organizations. Stepping in to meet the multifarious demands of economic growth were the People's Bank of China, the specialized state banks, credit institutions, foreign exchange banks, insurance companies, trust companies, securities companies, and other financial systems at every level. The single fund allocation system of unified deposits and loans became a thing of the past, many new channels and forms were developed to raise and consolidate funds, and a financial market system with securities trading, discount lending, note discounting, and foreign exchange re-distribution gradually took shape. Gone is the unitary financial administration model. The finance industry is now exploring the use of a management system involving a variety of adjustment and control methods including planning, economic, administrative, and legal means to proceed with macroscopic financial adjustment and control.

#### **Nice Development in the Foreign Banking Industry**

President Mao feels that the Shanghai financial industry has developed at a nice clip in recent years, as evidenced

most prominently by the introduction of foreign banks. He says that 16 foreign banks have already received approval to operate in Shanghai, all of them prominent international banks. Aside from Zhada, Huifeng, Dongya, and the Overseas Chinese Commercial Banking Corporation, all early arrivals, newly established banks in Shanghai include Dai-Ichi Kangyo Bank and the Industrial Bank of Japan, the Bank of America and Huaqi (Wanguo Baotong) from the United States, and Banque Paribas and the Credit Lyonnais Bank from France. The Sakura Bank of Japan has already received approval and will begin operating in October. By the end of this year, there will be over 20 foreign financial organizations operating in Shanghai, including finance and insurance companies.

President Mao said that the foreign banking business in Shanghai has developed nicely, with not only the account settling business, but the businesses of raising capital and borrowing and lending growing at a rapid pace. The management situation is superb, and Shanghai has created limited circumstances under which the foreign banks can realize their wish of handling renminbi transactions.

#### **The Securities Market Has Grown Rapidly**

Of the many channels involved in raising and consolidating funds, growth in the securities market has been the most rapid. President Mao said that, with the creation of the Shanghai Securities Exchange in 1990, stock trading made a reappearance after several decades of absence. In less than two years, securities trading has grown rapidly, market capacities have continued to expand, the variety of instruments traded has increased, and gradually standardization in the system has taken place. Currently, there are 30 varieties of stock on the market (nine of which are Class B stocks). Last year, the total volume of trade on the Shanghai Securities Exchange was 12.6 billion (renminbi, which is the currency unit used in the remainder of this article), 1.6 billion of which were stock trades. From January until July of this year, trading volume was 28.7 billion, 16.4 billion which were stock trades. Currently, 61 enterprises, all of which are large, well-known companies, have issued stock in Shanghai.

The number of members on the Shanghai Securities Exchange has grown from last year's 29 to the current 109, and the number of members from outside provinces has grown from last year's nine to the current 83. The allure of the Shanghai Securities Exchange has grown much wider, with "Phoenix Chemicals" of Zhejiang Province and "Gold Cup Automobiles" of Shenyang, both stocks from outside provinces, now listed on the Shanghai Securities Exchange. Moreover, Class B stocks first made their appearance in Shanghai, growing from one stock to nine stocks. This is a new attempt to use the investment form of stock ownership to make use of foreign capital.



### **Development in Pudong Stimulates Growth in the Financial Industry**

President Mao said that the State Council decision in April of 1990 to open up and develop Pudong has been a tremendous catalyst for growth in Shanghai's financial industry. All of Shanghai's specialized state banks have opened branches in Pudong, and finance business in Pudong has grown quickly. The finance industry has spearheaded the development of Pudong, with the funding for construction of the Pudong bridge made available through banking consortium loans.

The Shanghai financial market is opening up to the whole country, with over 100 billion renminbi in capital raised annually. Twenty financial organizations in Shanghai conduct foreign exchange operations, while various forms of financial cooperation and agency relationships have been established with over 3,500 financial organizations in over 100 countries and regions. Many times Shanghai financial organizations have successfully issued foreign currency bonds in the international financial marketplace, and moreover, they have done such things as enlisting Chinese and foreign financial organizations together in loan consortiums and handling loan transfer business for foreign banks.

The quality of operations in the Shanghai financial industry is improving, with a push now on for conversion to accounting machine networks, automated teller machines, computerized information transmittals, etc. President Mao feels that the Shanghai financial industry is at a nice stage of development today. As economic results continue to grow and channels for raising capital continue to expand, the financial industry will achieve even greater development in such a stable and relaxed climate.

### **A Plan To Realize the Goal**

President Mao's discussion returned to the topic of the financial reform goal. He said that the fixed goal of financial reform and liberalization in Shanghai is to restore, as soon as possible, Shanghai's status as a center of international finance and trade. He emphasized that the achievement of this goal will involve a gradual process of step-by-step attainment. In the short term, or prior to 1995, focus will be on taking care of financial construction, promoting standardization, and setting up a regional financial center. The medium range goal, or prior to 2000, will be full-scale liberalization, development of financial markets, and the creation of a financial center that is tied into international financial activity. The long range goal, or by 2020 to 2030, is the creation of a complete and influential international financial center with universal recognition.

President Mao said that this is an overall conception, the nuts and bolts of which are now being formulated. He pointed to what follows as ways of achieving such goals.

Take advantage of the introduction of foreign banks to augment financial creativity and speed up financial internationalization. The introduction of foreign banks has not only brought us new foreign customers, but it has introduced capital, and moreover, it has brought new management concepts and models, new financial tools, and new methods of competition. This presents a challenge for Shanghai. Shanghai must rise to the occasion and meet this challenge by intensifying financial system reforms, making timely renovations in financial systems, structures and tools, improving macroscopic management, and strengthening the vitality and competitiveness of Shanghai's financial structures so as to adapt to the demands of financial internationalization and link up, as soon as possible, with international financial markets.

Develop the securities market and take advantage of this breakthrough to stimulate overall growth in the financial market. The financial market in Shanghai is now taking shape with nice developmental momentum. We should take full advantage of this fortunate situation to rapidly expand the Shanghai securities market, broaden market capacity, improve market quality, and aim for the whole country, and gradually, for the world. We must develop securities management organizations, and we must increase the number of other organizations participating in securities investment and service including such service oriented companies as credit appraisal companies, accounting firms, auditing firms, investment advisor companies, and such investment oriented organizations as mutual funds, investment companies, pension funds, and health insurances funds.

We must increase market participation and attract securities from everywhere to the Shanghai market. We must do a good job of issuing Class B stocks abroad. At the same time, as we develop the securities market, we must also promote growth in discount lending market, discounting market, and the foreign exchange market. Moreover, we must promote development in the gold market and move into off-shore financial business as soon as possible, creating off-shore financial markets.

We must improve the financial environment by improving services. Top priority should be placed on training financial personnel by such means as specialized education, on the job training, advanced studies abroad, or term-specific in-house training with foreign banks, all done with the aim of creating competent financial personnel. At the same time, we must improve our techniques of financial work by looking into the use of advanced science and technology, we must broaden the scope of our financial services, and we must strengthen and perfect our business laws.

President Mao has total confidence that the developmental goals of the Shanghai financial industry will be realized.



## INDUSTRY

### Textile Industry Fully Opens Up To Market

93CE0074A Beijing JINGJI CANKAO BAO in Chinese  
2 Sep 92 p 2

[Text] The textile industry has fully opened to domestic and world markets, bringing a boom to textile manufacturing and garment sales. For the first half of this year, the total amount of domestic sales of textiles and garments was 35.403 billion yuan, among which, the sales amount of the industry itself was 33.794 billion yuan, or 95.45 percent of the total; and the amount of purchases by all levels of commercial sectors was 1.609 billion yuan, 4.55 percent of the total. In the international market, textile and garment exports have increased substantially, earning \$9.902 billion in the first half of this year, an historical high for the corresponding period.

The textile industry, while opening up to the domestic market, first strengthened its retail team and developed a commercial network. Since the beginning of this year, textile enterprises throughout the country have strengthened their sales teams substantially. In some areas, the percentage of sales staff for textile enterprises versus its total staff has increased from 0.5 percent to 1.5 - 2.5 percent. To increase sales profits, some localities and businesses have implemented a system of contracted sales, which is to use the all-around contract system, assigning specific tasks and targets to salespeople, withdrawing a certain percentage from sales income to pay salespersons' salary, bonus, travel and entertainment expenses. This way, a smoother workflow in sales and marketing is guaranteed. Meanwhile the national textile system has fully used the business network of state-owned businesses as well as supply and marketing cooperatives, has directly set up specialized counters in stores of large and mid-size cities and towns, and has formed a nation-wide sales network to promote wholesale and retail joint-operation or commission agencies. At present, the main method of local producer retailing is organization of specialized exhibitions, supply conferences and trade fairs to promote markets for textile products and garments, which connect manufacturing and trade, as well as consumers. The Jiangsu Textile Corporation has organized eight supply and ordering conferences since last year, resulting in a business volume of 280 million yuan.

Recently, the textile industry system has put special efforts into developing specialized markets and wholesale markets for numerous textile products, thus breaking the old closed structure in which only state-owned commercial departments could sell textile products and materials as wholesalers, while any commodity circulation between provinces, cities or regions, if not included in the national plan, was prohibited. Now there are many markets developed by the national textile system, some sell ready-to-wear garments or chemical fiber knits, and some sell textile raw materials, yarn and cloth. These specialized markets act as a standard trading place for both suppliers

and buyers to meet and make deals, and provide conditions for manufacturers to open to markets. For example, the Shandong yarn and cloth market now has 110 companies joining their market, with total sales to other provinces and cities as high as 50-60 million yuan monthly. The Huadong textile market, which is jointly run by six provincial textile departments in Huadong, has had a business volume of 300 million yuan since its opening last October.

Among all of China's industries, the textile industry responded earlier in opening to world markets. To date, the textile system has 2,790 joint ventures, and more than 110 export enterprises, initially forming a multi-channel, multi-port and pluralistic export system. In Hubei Province, the Huangshimeierya Garment Co. Ltd. has actively explored ways of cooperating with Japan, and made a 4.8 million yuan profit in the first four months of this year alone. The Nantong Friendship Garment Factory has joined efforts with a Japanese factory to set up the Sanyou Fashion Co. Ltd. The Japanese factory not only places orders for itself, but also encourages and directs other Japanese trading companies to buy from Nantong, thus converting all joint venture products to export. In the first half of this year, the joint ventures profits totaled over 10.459 million yuan, with an average per capita tax of 13,571 yuan. Because of these joint ventures, Nantong City's garment industry has earned over 14.017 million yuan in profits from the first half of this year, doubling profits made over the corresponding period last year.

Development of the textile industry has promoted border trade. In the first quarter of this year, the total volume of border trade in textiles for Heilongjiang Province was 43.8 million yuan, 59.4 percent higher than the corresponding period last year. In April of this year, the Heilongjiang Provincial Textile Department sponsored a fair for its products in Russia, 17 Chinese companies were chosen to do business, and three companies engaged in border trade signed import and export agreements and contracts with Russia, with a total trade volume of 50.2 million swiss francs. This year the Heilongjiang Garment, Shoe and Hat Corporation went to the Russian Republic to open factories. In the first quarter of the year, the factory turned a profit, with substantial increases in the second quarter. Recently, textile departments in Shanghai, Tianjin, Shandong, Henan, Heilongjiang and other provinces have all sent factory representatives to countries of the Commonwealth of Independent States to establish joint venture businesses.

### GATT Impact on Textile Industry Discussed

93CE0125A Beijing JINRONG SHIBAO  
in Chinese 17 Oct 92 p 1

[Article by Song Dejin and Tong Jinlong: "Talk About the Textile Industry While Taking Precautions—Written Before China Joins GATT"]

[Text] As the reform and open policy is being developed at a high speed, the "General Agreement on Tariffs and

Trade" [GATT] which is rather new to most enterprises is now rapidly moving closer to us.

### There Is No Other Choice

GATT which we will soon confront is a multilateral trade agreement signed on 30 October 1947 by 23 nations including Britain, the United States and France. It is aimed at reaching an agreement for mutual benefits, removing trade barriers and eliminating discriminating practices in international trade. Right now, GATT has a total of 102 signatory nations, and its trade volume accounts for more than 90 percent of the total world trade volume. China's trade with GATT signatory nations represents about 85 percent of its foreign trade.

Due to the fact that GATT is built on the basis of market economy, China must necessarily change the portion of its existing economy system not compatible with GATT if China is to join GATT. All this requires that China quicken its pace in reforming its system in a planned way, reducing its tariffs, removing its regional barriers and protective measures for particular trades, developing the internal managerial mechanism in enterprises to adapt itself with competition on the international market, promoting functional changes of the government, and helping the existing economic system meet international standards.

China is now a large nation in the world in the production of textile products. As of the end of 1991, China had more than 40 million spindles for cotton spinning, over 900,000 cotton looms, more than 3 million spindles for woolen spinning, 35,000 woolen looms and 170,000 silk looms. China is capable of reeling 2.44 million cocoons and producing 2 million tons of chemical fiber. China ranks first in producing cotton and silk fabrics, second in turning out woolen textiles and third in producing chemical fiber. However, China still regards bilateral trade talks as the major channel in exporting its textile products. It is also restricted by strict import quotas and other GATT regulations on multilateral trade. All this prevents China from developing its textile export and bringing into full play its comparative advantage. Therefore, to eliminate discriminating practices against China in doing international trade, we must open ourselves wider to the outside world and join GATT, the "Economic United Nations."

### Opportunity and Challenge

China's participation in the GATT multilateral trade system would provide us with the opportunity of marketing our products in the world. Meanwhile, this would also help foreign products enter the Chinese market even more freely. Like twin sisters, opportunity and challenge are born together, and coexistent at the same time. They affect the development of the domestic economy.

Generally speaking, China is able to expand its export of textile products after joining the GATT, and to improve the overall quality of its textile products.

1. Joining GATT is conducive to expanding the export of textile products. By joining the GATT, China will steadily and unconditionally enjoy the multilateral MFN trade status in more than 100 GATT signatory nations and regions. Meanwhile, due to the fact that China is a developing nation, it will enjoy an even more favorable status under the general preferential system in developed nations, and create a prerequisite to encourage fair trade and avoid discrimination in exporting its textile products.
2. Joining GATT is conducive to helping China's textile products become more competitive on the international market. Joining GATT will help China place itself in the midst of multilateral trade system. Most of China's trade talks with foreign countries will become multilateral talks instead of bilateral talks. China would have the right to ask related GATT signatories for concessions in exporting its textile products and to expand its export market.
3. Joining GATT is conducive to developing technology in textile industry. Lowering import taxes and relaxing import restrictions will help China's enterprises import more advanced technology and equipment from foreign countries to carry out transformations and renovations and turn out more refined textile products with high added value. Joining GATT is also conducive to preventing blind investment and repetitive construction projects for some products in great demand and to timely readjusting the structure of industry and the product mix.
4. Joining GATT is conducive to protecting China's legitimate rights and interests in doing export business for its textile products. Since GATT expands the role of the market mechanism and stresses fair competition, it will make China further conform with international practices in the course of promoting economic exchanges with foreign countries. GATT may help reduce frictions and disputes in trade and prevent major trading countries from making use of domestic legislation as an excuse to take unilateral retaliatory measures. To a certain extent, it will provide China with security in developing its foreign trade.

While joining GATT may give China the aforementioned benefits, rights and preferential treatments, China must also fulfill certain obligations. The main obligations are: (1) Reduce import tariffs. (2) Appropriately open up the domestic markets, and increase imports. (3) Gradually eliminate nontariff restrictions; minimize nontariff protective measures such as import licenses, the quota system, foreign exchange control and strict technical inspection procedures; and create conditions for the promotion of free trade. (4) Increase transparency in trade; and promulgate all types of data, laws and regulations, rules and ordinances, decisions for economic developments and trading. (5) Relax foreign exchange control, and use a unilateral floating exchange rate between renminbi and foreign currencies.

From all this, we can see that after joining GATT, the monopoly of the goods made in China under the protection of tariff or nontariff walls will no longer exist. Enterprises must rely on themselves to compete with foreign goods on the domestic and international markets. Within a short time, enterprises producing textiles will receive considerably high pressure, and the textile market will suffer rather great shock because of this.

#### **We Must Not Lower Our Guard**

The textile industry is a pillar in China's export business. Textile products have become China's major export merchandise since 1986. In 1991, China had made \$16.73 billion in foreign exchange from textile and clothing exports, accounting for more than 25 percent of China's total volume of exports. However, after China joins GATT, the textile industry will be faced with fierce competition from developed countries, the "four little dragons" and Southeast Asian nations. We must not feel excessively optimistic about this situation.

Judged from the structure of exports, China's textile products mainly rely on primary products and quantity to earn more foreign exchange. Their added value and foreign exchange earnings are low. They are approximately the same as textile products exported from Southeast Asia countries in terms of quality and variety. Many products find themselves hard to cope with the changes on the international market in quality, design, color, package and after-service. China's textiles industry is weak in economic strength and less competitive.

Judged from production costs and foreign exchange earnings, China's superiority in production costs is waning and its foreign exchange earnings are still quite low. Due to continuous large increases in cotton prices and sharp wage hikes in the country, the production costs of China's textile products are already higher than the average.

Judged from tariffs, China has imposed comparatively higher customs duties on imports. The tariffs on imported industrial products in China averaged 36.9 percent in 1989, while that of developing nations in the world averaged 20 percent and that of Western developed nations averaged 4.7 percent. It is not difficult to see that China's tariffs are much higher than those in developing and developed countries and that enterprises in China have been relying on the crooked price system to reap profits for a long time.

Judged from the domestic market, China's textile industry has been in the predicament of insufficient work and poor economic performance for the past three to four years. On the one side, the total production capacity is too large, far exceeding the total volume of social needs; while on the other hand, most of the textile enterprises are small and medium-sized. There are too many of them, and their standards are uneven. Low in production, most of them manufacture the same type of products. It is difficult for them to form a group to pool their resources on a large scale. According to statistics

compiled on 1,270 state-run textile enterprises in 39 large and medium-sized cities during the first half of 1992, enterprises in 14 cities made profits, while those in 25 cities reported losses. Although the number of enterprises with losses was reduced by 3 percent, the amount of losses was higher.

Judged from the quality of enterprises, developed nations use high technology to transform the traditional textile industry and set up a global marketing and sales network, while the "four little dragons" attach importance to developing science and technology, training scientific and technical personnel and improving the quality of the labor force. However, most enterprises in China are unable to carry out technical transformation and renovations. Their production facilities are outmoded, and their production technology is backward. All this has rapidly made China's traditional textiles industry less competitive.

Once China joins GATT and its textile market loses its original protection, competition from foreign products will be comprehensive and fierce. According to an analysis made by the people concerned, industries and products that will be affected most are as follows:

1. Chemical fiber industry. Although China's chemical fiber industry has leaped to the forefront of the world, it is still unable to meet the requirements of the domestic and international markets in terms of variety and quality. Its products are less competitive on the world market. In addition, the price of chemical fiber on the domestic market is now higher than that on the international market.
2. Imitation silk products made by chemical fiber. These products have been developed and produced in China on a large scale only during the past several years. However, they can hardly compete with the same type of foreign products in quality and variety, particularly in price.
3. High quality printing and dyeing after-treatment products. Due to the comparatively backward technology in printing and dyeing treatment, China's high-quality printing and dyeing after-treatment products are still in the stage of development and small-scale production. They are still unable to satisfy domestic demands in terms of quantity and quality.
4. Textile Machinery Industry. China's textile industry is comparatively backward in technology, and inefficient in carrying out the integrated operation of mechanical and electrical equipment. Right now, textile enterprises in China badly need a large number of advanced and modern textile machinery. However, such machinery is unavailable in China. After China joins GATT, a great number of modern foreign textile machinery will swarm into China, following the gradual abolition of the import license system.

### Two Wheels in Invigorating the Textile Industry

In recent years, China's export of textiles and clothing has lingered at the lower level because of low quality and lack of competitiveness. The root reasons for all this are backward technology and poor management. In an attempt to enhance the competitiveness of enterprises and quicken the pace in developing the textile industry when China joins GATT and conforms with international practices, the key lies in turning both wheels—technology and management—, bringing into full play the market mechanism and letting those best adapted to existing conditions survive. We must let our enterprises play their role well on both domestic and international markets, meet their challenge and develop themselves. To achieve this goal, we must carry out the following tasks:

Bring about changes in product mix with emphasis on the development of high technology. Develop diversified and compound raw materials, and turn out more refined and well processed intermediate and high-quality products with high added value.

Quicken the pace in promoting technical progress, and replace the older generations of products with new ones. Resolutely implement policies on the textile industry, strictly restrict the blind development of small cotton and woolen mills, and refrain from expanding facilities for enterprises with low efficiency.

Strengthen management, and change the managerial mechanism in various enterprises. While China imports advanced technology and equipment, it is necessary to study foreign advanced management techniques; learn from the experience in advance management in foreign countries; pay attention to various types of management work with emphasis on quality control; raise standards in designing, printing and dyeing; and increase varieties in designs, sizes and colors.

Organize production, marketing and management according to international regulations and practices; and develop enterprises groups that integrate industry with trade. Enterprises and enterprise groups with favorable conditions should be given authority to export their own products. It is necessary to break down the monopoly in doing export business.

Use various forms for fund-raising such as raising money in society, implementing the shareholding system, issuing bonds and attracting foreign investments. Efforts must be made to raise funds for the development of technical innovations, and accelerate technical renovation and transformation.

Promote changes in government functions. Simplify various procedures for the examination and approval of applications, control the markets with economic means, and help develop an unified market system. At the same time, we must adopt various supplementary measures to promote reform, help reduce enterprise burdens, and use market pressure to spur enterprises to vitalize themselves.

In short, China's participation in GATT serves as an opportunity as well as a challenge for the textile industry. In face of the rapid changes on the competitive market, there is only one way out. That is, we must exchange the market for technology, and rely on technology to compete with others for the market. We must turn the pressure from the outside challenge to a force that will motivate enterprises to survive competition on the international market and seek for even greater development by relying on their own renovations.

### AGRICULTURE

#### Du Runsheng on Rural Reform, Market Development

93CE0086A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese  
No 9, 20 Sep 92 pp 3-9

[Article by Du Runsheng (2629 3387 3932): "Continue Rural Reform, Accelerate Market Development"]

[Excerpts] The resolutions of the Eighth Plenary Session of the 13th Central Committee have pointed to the goals of the 1990s, such as the need to achieve comparatively well-off living standards, in particular stressing the need to produce 1 trillion jin of grain. What would we call comparatively well-off? The Rural Survey Group of the Statistics Bureau point out that according to national calculations, the national per capita total output value has doubled to 2400 yuan. Rural per capita income has reached 1100 yuan. The Rural Survey Group also notes some income target figures for other aspects, mainly quality of life, for example daily edible protein is 75 grams, which is within 30-40 percent of the Enger coefficient. Income disparities are not too wide and are within 0.3-0.4 in terms of the Gini coefficient. As for other aspects, for example, 80 percent of people receive compulsory education; and highways, telephones, electrical lines reach a large portion of villages. These targets represent trends in the overall development and common prospering of working people, and are indispensable, but income is the base, as receiving an education, transforming the environment, increasing cultural quality, eating more meat, etc., all hinge on the nation's real income.

Relying only on numbers is no way to go about it, first it is necessary to perfect the social economic structure, supply the motive power, promote overall economic development, and improve the position of the rural economy to increase income. In addition it is necessary to as far as possible reduce obstacles and frictions, and accelerate the pace of reform and opening. For this reason the 90s will see the process of changing the rural structure, and the process of shifting from a rural society to an industrial society. Of particular importance is that in the process of continuing to promote a reform and opening up policy, to depart from these processes and talk idly of the goal of well-off living standards is not realistic. This is thinking about which we must be

definite. Below I want to discuss some approaches from this angle to continue rural reform and accelerate rural development. [passage omitted]

#### **The Practice of Rural Reform Proves That a Market Economy and Socialism Can Coexist**

The essence of reform is realizing a one time major breakthrough when it comes to the two factors which inhibit economic development: previous development strategies and systems. This breakthrough starts from the rural areas. Past revolution has involved the rural areas surrounding the cities, and this revolution also is one in which the rural areas will surround the cities. The rural areas are the starting point for the advance of the revolution. Under the guidance of the "one center, two bases" general line progressively formed after the Third Plenary Session of the 11th Central Committee, the policy of fixing output quotas for households began to be adopted in 1980 following a trial period in 1979. Less than three years later the so-called family contract responsibility system had achieved wide success over the whole country. In this way, the seal on the great iron rice bowl associated the people's communes was smashed, and a decentralized two-tiered management system was established. Cultivated land was returned to the peasants to manage, and peasants tilled the land, relating this to their own vital interests, and they were able to realize a situation where the more they worked, the more they benefitted. Starting in 1985, the government has opened the market for agricultural products, and with the exception of several primary products, all can be freely bought and sold. Farmers also have management autonomy, and based on market information, new allocation of their own resources, and the development of diversification, they can go from a sideline occupation and develop into a light industrial area, and combine little pieces of work into a bigger effort, and then into a township enterprise. Of course, early on this should have led to a transformation of the employment structure from agricultural to industrial, and now many have found an opportunity. Over the last several years, township enterprises have been a new force suddenly coming to the fore, they have created billions in production value, and have solved an employment problem for 100 million people. Agriculture has gained from the feedback of township enterprises, and is also on the ascendant, and the long yearned for requirement of food and clothing has been satisfied.

Setting up a township enterprise is a type of rectification of the development strategy of the past. If you restrict peasants from coming to the cities to become workers, they themselves will break open a path, leaving the land but not leaving the village, engaging in industry, transportation, construction, horticulture, and service industries. In this way, over a short period of time nonagricultural employment problems of large numbers of laborers will be solved. This is an event rarely seen in world history.

Township enterprises have achieved great success: First, they have solved an employment problem. Second, they

have corrected structural problems such as having heavy industry being too heavy, light industry being too light, large industries being too large, and small industries being too small. Third, township enterprises have created a new production mechanism. This mechanism does not involve "eating together," but involves self development, self restraint, the possession of ample autonomy, and it can accept market competition were the law of the good winning over the bad rules. This is a great undertaking, and it proclaims the truth that a market economy and socialist public ownership can coexist. The large-scale development of township enterprises has been a fortuitous event as China implements a policy of reform and opening. They use labor-intensive products, participate in the division of labor of the world economy, use the overseas market to sell products, and import technology and capital. This is the path followed by the "four little dragons," but there is still some doubt about whether China will be able to do this. Township enterprises are very rapidly exploring whether this road can be followed. Last year their foreign exchange income was 66.9 billion yuan, or some one-third of total foreign exchange. They have also attracted foreign investment, set up a number of joint ventures, three capital enterprises (all foreign capital, partnership of Chinese and foreign capital, cooperatively managed enterprises), and processing industries, and created the experience that attracts international capital for developing the country's industry, thereby blazing the trail of opening up. Those opposed to opening up state: aren't the special economic zones in fact just colonies? Aren't the three capital enterprises in fact just the exploitation of foreign capitalists? When both parties are abroad, is this not exploiting the workers? Using facts from the experience the country has undergone in the last few years, in opening up to the outside we have used the international market, and raised the productive power of the country. This has been beneficial to strengthening China's international position, beneficial to people's prosperity, and beneficial to strengthening the position of socialism. The arguments of the critics are on shaky ground.

China's reform process has produced valuable experience, in that before the comprehensive launching of urban reform, we had already in villages and open areas, provided a market environment to large numbers of peasants, township enterprises, foreign capital enterprises, and individually owned enterprises, which was beneficial to their economic development. These enterprises, taking their lead from the market, changed to flexibly reflect the needs of society, seek economic efficiency, and continuously improve technology through new products. For this reason, when over a three year time period, when a large proportion of large and medium-scale state run enterprises were suffering losses, they were making a profit. When the national market has been soft, they have been able to tide over the difficult situation, and continue to persist in production. Township enterprises and other nonstate run enterprises, and the entire rural economy and coastal open region economy are a major supportive force in the flourishing of China's economy, and are also a supportive force

for advancing reform. In moving towards a socialist market, during the new system's transition it is difficult to avoid risks, such as unemployment, and inflation, and while it is possible to decentralize and absorb, things should not be allowed to concentrate and come to a head, or a situation which is difficult to put in order emerges, such as the experience of Eastern Europe and the former Soviet Union.

The overall economic level of the coastal regions is already close to making them comparatively well off. The process of creating township enterprises in these regions is already very well along, and large amounts of labor power has been transferred into nonagricultural spheres, while scaled management has begun to emerge in agriculture. I went to a place to look around, and there was a peasant household with eight members, which farmed 120 mu of land. They had established a pig farm, and in one year amassed an income of 200,000 yuan. In these areas, agricultural production has gone from a subsistence form to one which produces other benefits, such as planting high grade rice in rice paddies; raising fish also means not raising traditional mackerel, grass carp, silver carp, and bighead carp, but raising fish costing tens of yuan a jin such as grouper, fragrant fish, etc., in other words, fine quality products with a high economic value. Orchards are changing to grow exportable products; those growing vegetables are using types for supplying large restaurants domestically and abroad. What farmers are seeking are high value-added goods, and goods that return a high rate of foreign exchange. Farmers average net income has reached 900-1200 yuan. To increase cost cutting, a natural trend is towards product specialization, and specialization means that progress in the process of commoditization of agriculture is stepped up, the level of reliance on the market increases, there is an increase in the frequency of exchange of market commodities, and this promotes the development of the market itself and the overall development of tertiary industry. These areas coastal provinces including Jiangsu, Zhejiang, Guangdong, Fujian, Shandong, and Liaoning. While the value of agriculture product from these regions as a portion of the national economy has dropped, the output value of agriculture itself has increased, per capita output value, and per capita energy consumption have increased, and the goal we set out at the beginning has been realized. It can be said that in these areas, under the guidance of the market, there has been an acceleration of the progress from an agricultural society to an industrial society. Reform promotes development, and development supports reform, the two have a conforming effect. This is an experience which carries a common significance.

#### **The Key To Continue Rural Reform Is Accelerating Development of the Market**

Since the adoption of the policy of reform, villages have obtained extraordinary success, but in the course of development, there have also been a number of inhibiting factors, reflected in the reality of this situation that agricultural production and farmer's income are still in a

state of fluctuation. Between 1978 and 1984, grain and cotton production and income both increased, while grain output reached an historical peak. A "grain shortage" emerged from 1985 to 1988, while income continued to rise, but grain production dropped, and three years of fluctuation ensued. From 1989 to 1991, grain production rose again exceeding 1984 levels, but the price of grain decreased, and the speed and breadth of the increase in farmers' income dropped, so that for three years the average rate of increase was 0.7 percent. What was the reason for this?

Prior to 1984, there was an increase in production and income, the reason being the implementation of the family contract responsibility system. At that time the planned economic system had not yet been reformed, and grain prices could only be adjusted upwards. Increases in production were the result of the release of the latent productive forces which for many years had been constrained. In 1985, in addition to the retaining of grain contract purchasing, the central authorities decided to gradually launch an agricultural goods market, and the government to reduce its financial burden, adjusted down the higher prices for purchases beyond state quotas. Farmers, seeing that selling grain was difficult, while earnings were small, transferred resources into high value added management to maintain their income levels. Originally believing that adjustment of the planting industry structure and the decline of grain production were in accord with a regular pattern of change, it was possible to look at the years of fluctuation, and see that it gave rise to excessive worry, i.e., "grain shortages cause worry." This on the one hand limits diversified management, and reduces township enterprise credit, and on the other hand uses administrative intervention to ensure the grain growing area, raise grain prices, increase the supply of chemical fertilizers, and transform investment for low-yield land, working along two lines. In 1989, grain production increased to an even higher level, and the extent of the increase in farmer's income was reduced to an even lower level. Selling grain became even more difficult, and the market was very weak. It was plain that government intervention in agriculture had lost touch with the changing requirements of the market, and that only output was required, efficiency was ignored, and was the major factor that gave rise to abnormal fluctuations in production.

Ten years of experience proves that: a half market half plan two track system as a transition method can be done, but it cannot be sustained for a long period, or it will solidify as a system, otherwise, the efficiency achieved under the guidance of the market during the 10 years of reform will also be difficult to sustain. Real life indicates to us that deepening of reform, and the development of the market are imperative. Comrade Deng Xiaoping's southern tour speeches smashed the erroneous ideology which equates the plan and the market with socialism and capitalism, and even further inspired people with courage and resolve to move towards the transition to a socialist market economy. At present, the

most essential matter is the establishment of a basic structure for fostering a market, the establishment of microeconomic entities which enjoy ample autonomy, letting these economic entities be able within the market to engage in the exchange of labor, have equal opportunities, and have fair competition. Within this competition, through government directed macro regulation, economic efficiency and socially fair relations can be regulated well, and the relationship between partial and local interests and the interests of the whole can be regulated well, while through first having some become wealthy and later others, common prosperity can be achieved. As treatment for the results of the long-term existence of a planned economy, now it is necessary to accelerate the growth of the market, and to as rapidly as possible complete to the replacement of a centralized planned economy with market economy in which the government engages in macro regulation. The primary contents of the development of the market are:

1. Perfection of management mechanisms for various types of economic entities. Mechanisms for transforming urban large-scale enterprises, in villages, stabilizing the family contract responsibility system, extending the land contracting period, fixing the scope of property rights. Develop market intermediary service organizations, and perfect the two-tiered management system.
2. Develop the commodity market. Establish a new price formation mechanism, replace government fixed prices with prices determined by the market, using market price information to guide production. Gradually abolish the state monopoly purchasing and marketing system and the monopoly operating and selling system.
3. Develop a market for producing key elements. Allow land use rights to be transferred to better promote the society's division of labor and specialization of production. Development financial markets to satisfy the requirements of managers for using capital. This will both be of benefit to efficient use of existing resources, and be of benefit to using interest rate methods to control the scale of investment, while giving full play to efficient competition. Encourage the diversification of cash flow methods, run negotiable securities and stock markets, increase the open nature and socialization of asset ownership rights, and stimulate new ideas in socialist public ownership, to improve the disposition of key elements to a state of excellence.
4. Develop tertiary industries and urban construction. Increase the efficient use of service industries, reduce the transaction costs of managers, and strengthen competitive ability.
5. Changing the function of government. Abandon micromanagement, and change this function to the establishment of a macro-level regulation system, for maintaining the overall balance between supply and

demand, and ensuring social safety and fairness and the harmonization of the people with nature. Perfect property rights law and system arrangement, stipulate the rules of market competition. Undertake large-scale service facility construction, establish a social safety net, and promote unification of a national market, etc.

#### **The Need for New Progress for Township Enterprises in the Western Regions During the 1990s**

Recently, a sizeable development gap has opened between the eastern coastal region developed areas, and the central and western regions of the country, and the principal difference is in township enterprise development. If we divide the entire country's township enterprises in three groups, the first group, with an average per capita output value of over 1000 yuan includes: Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang, Guangdong, Shandong, Liaoning, which together constitute 55.8 percent of the nation's township enterprise output value. The second group has a per capita output value of 300-1000 yuan and includes: Hebei, Shanxi, Heilongjiang, Jilin, Anhui, Fujian, Jiangxi, Henan, Hubei, Hunan, Sichuan, Shaanxi and Gansu, which together account for 40 percent of the country's township enterprise total output value. The third group has a per capita output value of below 300 yuan, and includes Inner Mongolia, Guangxi, Hainan, Guizhou, Yunnan, Tibet, Qinghai, Ningxia and Xinjiang, which together account for only 4.16 percent of the nation's township enterprise overall output value.

The development of township enterprises symbolizes the transformation of the rural employment structure and the peasant income structure and for this reason has given rise to a transformation of the structure of agriculture, while during the 1990s, the western regions in this respect will have new progress, and this will be a decisive factor in the overall national economy's switch to comparatively well off levels.

In my opinion, the central and western regions must first invigorate the overall rural economy. Do not mechanically copy the eastern regions, do not listen to what everybody says about where you should allocate various amounts. You should clearly understand your own starting conditions, and these places first should create conditions for invigorating the overall rural economy, properly handling various types of management, producing a variety of products; taking various shapes, activating various component parts, and allowing everybody to work. In addition to industry, it is necessary to pay attention to the development of livestock raising industries, aquatic products industries, horticulture industries, industry, business, transportation industries, and the construction industry, to develop civil engineering, etc. Each area should select one or two items and make every effort to make a breakthrough. In terms of economic component parts, we should not stick to one pattern, going it alone is also possible, combining households may be done, collectives are possible, individual ownership is possible, share systems are



possible, it is necessary to genuinely open up. It is archaic to always keep in mind Mr. Capitalism and Mr. Socialism, and not attend to matters. It is necessary to always bear in mind the development of the productive forces, and the liberation of the productive forces. Wenzhou is first working on individual, and then on share cooperation. Most recently comrade Deng's speeches have also especially stressed the need for transforming ways of thinking. In facing the transformation of ways of thinking, there is a road, while to not transform ways of thinking is a dead end.

Second, developing township enterprises requires the adoption of a new approach that integrates decentralized and centralized elements. It is not necessarily the case that each village runs an industry, or that all are family secondary industries able to be run by one family or one household, though of course they should be decentrally operated. All should have a scale that is suitable to concentration at a single point of operation, and it is possible to establish industrial zones, and development zones. Here the use of share systems, combined capital enterprises, the establishment of joint service organizations and service facilities, such as highways, banks, post and telecommunications, information, legal consulting, and educational facilities, etc. I also advocate setting up small urban centers. At present, township enterprises operate 2000 small towns, which is still not enough, and it is necessary to study the Wenzhou area peasant self financed small town. There, Longgang village now has a population of 100,000 people. Anhui's Fuyang district opened up some industrial zones, and today they are being changed into small towns. When setting up a place to attract business, whoever is willing to come here to operate an enterprise pays a one time construction fee, then jointly constructs the small town. If the whole country is able to increase the numbers of small towns, this will produce a very profound effect on the appearance of the whole of rural areas.

The advantages of developing small towns are: first, they are convenient for establishing joint service organizations and service facilities. Second, it is possible to economize on land, and protect against excessive occupation of cultivated land. Third, they are convenient for opening up to the outside. Foreign investors know that it is not convenient if you do not have service facilities, and others will take one look and be unwilling to come. Fourth, it is convenient for controlling pollution. We must plan for the benefit of future generations, and

properly handle agricultural environmental protection. It is necessary to establish an effective supervisory system. Rural industrialization and the creation of rural towns must be unified.

Third, we must pay ample attention to the development of tertiary industry. The middle and western sectors both have existing obstacles that get in the way of communications. Within small towns it is good, within industrial zones it is good, with villages it is good, and all must actively support the development of tertiary industries. Because the state monopoly for purchasing and marketing is slowly and inevitably being abolished, once it is abolished, the development of tertiary industries will be invigorated. It is also necessary to accelerate the construction of service facilities, while the communications and transportation industries have become a bottleneck to development, and close attention must be given to their development.

Fourth, is respecting talented people. In arousing the masses to participate in the reforms and participate in development, talented people will emerge from within the masses, and provide help in fostering. Fostering thousands who will emerge from within the practice of building reform, is an extremely important measure. This is the organization line we should choose. It is necessary to go in for professional training and professional education in a big way.

Here I want to emphasize the need to give full play to the initiative of each of the various economic component parts. Four-wheel drives, collectives, individuals, private partnerships, taken together at the same time, represent the successful experiences of reform. China, in the 1950s was by no means like today's productive forces, with a capacity of the relations of production that is not understood, while man-made elements raised the relations of production, and within a few years, the whole country had been changed into one with complete public ownership, bringing about a situation where the relations of production led, blocking the development of the forces of production. The history of reform proves that individual economies, taking family economics as the foundation of a partnership economy and providing great latitude for development, are necessary complements to the public ownership economy, and cannot be eliminated, nor discriminated against. For the central and western areas, there is nothing to fear in developing individual and privately-owned enterprises. [passage omitted]



**Dongfang University Established in Changchun**  
*SK1811125392 Changchun JILIN RIBAO in Chinese*  
29 Oct 92 p 1

[By reporter Yi Feng (5030 7685): "Dongfang University Was Established in Jilin"]

[Text] Dongfang University was established by the Jilin Provincial Old Professors Association to suit the demands of reform, opening up, and economic construction. This is the first people-run university approved by the provincial education commission. The university aims at cultivating various categories of university-level skilled persons with powerful competitiveness and great adaptability to meet the urgent demands of society and to serve economic development as well as socialist modernization.

This university has a contingent of teachers from all areas of learning. Changchun City has some 1,000 retired professors and associate professors. Some of them are teachers of postgraduates. So, they are the backbone in

cultivating high-level skilled persons. With various specialized departments, including the departments of liberal arts, science, engineering, agriculture, and medicine, Dongfang University gives various forms and layers of university education and continued education. To meet the urgent needs of society, at present, the university concentrates energy on organizing specialized subjects with two or three years of schooling, including Russian economics and trade, Japanese economics and trade, application of computers, modern accounting, and economic laws. Simultaneously, the university will organize various short-term vocational and technical training classes and conduct temporary specialized education and continued education if necessary. It will also open some specialized subjects to attract foreign students. The university will take the responsibility to recommend its graduates to working units. As for the graduates with the knowledge of foreign-oriented specialized subjects, the university will introduce them to the state units or recommend them to study and work abroad.

The university is located in Changchun City and has an enrollment of 500 students. The university will start to recruit the first group of students in the spring of 1993.

### Yang Baibing's Attempt To 'Usurp Army Leadership'

HK0412125892 Hong Kong MING PAO  
in Chinese 4 Dec 92 p 9

["Newsletter from Beijing" by Wen Shih (5113 4258)]

[Text] Beijing sources revealed that a document on the mistakes committed by Yang Baibing, who held a military meeting without authorization in an attempt to "usurp Army leadership," has been relayed to high-level cadres. That event was repressed by the central authorities, and Zhang Gong, political commissar of the Beijing Military Region and Yang Baibing's most trusted subordinate, has been transferred to northwest China. There has been a tense atmosphere in various military organs in Beijing. But some veteran ex-servicemen are extremely happy. Sources said that on 30 October, the Central Military Commission held a special meeting to discuss the Yang Baibing issue. In accordance with the spirit of the meeting, JIEFANGJUN BAO published a strongly worded editorial. Now, a CPC Central Committee document on Yang Baibing's mistakes has been relayed to high-level leaders of the CPC Central Committee. It has also been disclosed to ordinary people by some veteran servicemen.

It was learned that the document points out that, apart from the convention of a military meeting without authorization in an attempt to "usurp the Army leadership," Yang Baibing also made some other mistakes, such as practicing factionalism, trying to act on his own [nao du li 9527 3747 4539], making his trusted fellows the core of military cadres, and promoting those who submitted while transferring those who resisted to other places. In both thought and action, he also tried to change the leadership with Jiang Zemin at the core into a party Central Committee under the command of the military forces.

The sources said that on the question of why Yang Baibing was still able to enter the Political Bureau at the 14th CPC National Congress, the document explained that this is because, on the one hand, he has made certain contributions to reform and opening up and played a positive role in emancipating minds in cultural work, and on the other, as the 14th CPC National Congress was not merely aimed at handling Yang Baibing's case and as it was still in session at that time, in order to calm Yang's men and have Yang's case reexamined and handled after the congress, it was necessary to let Yang Baibing remain in some party position.

The sources said that the central authorities believed that Zhang Gong, political commissar of the Beijing Military Region and Yang Baibing's most trusted subordinate, was the person to "deal with most seriously." That is why he has been transferred to northwest China. But to date his replacement is still unknown. According to sources, top-level CPC leaders now feel that the main danger caused by Yang Baibing's case is over.

The sources believe that, at present, there is still a tense atmosphere in various military organs in Beijing. Everyone is afraid that he might be labelled "Yang's general" and be criticized. But those veteran servicemen who have been pushed out by Yang Baibing and who are disgusted with him are greatly inspired. These veteran servicemen, who are only fond of calligraphy and writing poems at "pen associations" and "poets associations" and show no interest in politics now, are visiting each other's homes to celebrate the handling of Yang's case.

The sources pointed out that as the danger caused by Yang Baibing's case had basically been eliminated, Jiang Zemin gave a speech to the National Defense University some days ago. The main purpose of his speech was to reassure the military that the Central Military Commission would deal with different issues and people in different ways.

### QIUSHI Lauds Work Style of Missile Personnel

HK1009092492 Beijing QIUSHI in Chinese  
No 15, 1 Aug 92 pp 26-27

[Article by Zhu Defang (2612 1795 5364) by Lanzhou Military Region Air Force Political Department and QIUSHI reporter Chang Guangming (1603 0342 3046): "A Profound Lesson—Reporters' Impression After Visit to Air Force's Northwest Ground-to-Air Missile Experiment Base"]

[Text] From 2 to 6 July this year, the capital press coverage team came to the depths of the Gobi Desert to cover the Air Force's Northwest Surface-to-Air Missile Experiment Base.

In this "sea of death" regarded by foreigners as "the most ideal range for experimenting with missiles but not a place for human beings," the officers and men of the base settled down, created miracles in turn, and erected an iron air defense network in the blue sky of the motherland. Their deeds were published and broadcast one after another by RENMIN RIBAO, JIEFANGJUN BAO, GUANGMING RIBAO, ZHONGGUO QINGNIAN BAO, QIUSHI, and the Central People's Broadcasting Station. The story narrated here is a profound education received by reporters during the coverage.

The reporters were deeply affected by the spirit of plain living, hard struggle, and selfless dedication of the base officers and men. Under the conditions of reform, opening up, and commodity economic development, is the spirit of plain living and hard struggle still necessary? Some people have given a negative answer to this question. Through the current visit, we profoundly realized that the spirit of plain living and hard struggle should be retained. Whether in the past, present, or future, the spirit of plain living and hard struggle constitutes an immense motive power and source of strength for us to advance. It is also an essential manifestation of the soul of the nation, Army, and people. Zhang Xiangsheng, a reporter from the Central Television Station, said: "In the Gobi Desert, where you can see our soldiers, you can

find green plants, water, and life. There can be no happy life without hard struggle. We came here to receive education rather than for news gathering." Xu Zhuqing, director and editor-in-chief of ZHONGGUO QINGNIAN BAO, and Lu Zuyi, chief editor of BAN YUE TAN, said: "The extent of plain living and hard struggle here has far exceeded our imagination. The adverse and harsh big environment forms a sharp contrast to the fine small environment created by the base officers and men through hard struggle. We received a profound education within a short period." You Lin, editor-in-chief of QIUSHI, said: The enhancement of China's overall national strength and its elevated status in the world is closely related to the intensified national defense. The base officers and men have contributed to this. These comrades are heroes who have rendered meritorious service to the party, state, and people. Their service is valuable because they have rendered it under harsh conditions. The places where conditions are harsh should carry forward the spirit of plain living and hard struggle. The places with better conditions should also maintain and carry forward this spirit. However, the spirit of plain living and hard struggle can easily flag in places with better conditions. In this regard, there is a gap between the journalists living in the capital and the base officers and men. Therefore, emulating the base officers and men and maintaining and carrying forward the spirit of plain living and hard struggle became the common understanding of the reporters and leaders of the coverage team. As Zhou Wenwu, director of GUANGMING RIBAO Science Department, and Li Chenghua, deputy director of RENMIN RIBAO Domestic Political Department said: "We cannot forsake the spirit of plain living and hard struggle in the current reform and opening up. We should learn the spirit from the base officers and men and implement it in our work."

The spirit of plain living and hard struggle of the base officers and men is closely linked to their selfless dedication. There has always been two kinds of struggle. One is self struggle, which judges the value of the struggle based on personal interests and the other is selfless struggle, which judges the value of the struggle based on the interests of the state and nation. Is it necessary to advocate self struggle in our society? The base scientific and technological personnel have given a good answer: If self struggle is advocated, no one would have come to this barren Gobi Desert to settle down and start a career. Besides wages, there is no other source of income, to say nothing of making a fortune. They said: With our specializations and techniques we could earn a lot in the coastal areas or lead a comfortable life in the interior. As a serviceman, however, personal interests should be subordinate to the needs of modernizing national defense. Holding the hands of You Lin, editor-in-chief of QIUSHI, chief engineer Wu Kela, who has worked here for more than 30 years, said excitedly: "So long as missile experiments are successful and national defense is modernized, I am satisfied and have no other demands." This spirit of plain living, hard struggle, and

selfless dedication is the lofty spirit which should be vigorously advocated. Faced by many comrades like him, the reporters were deeply moved. After an interview with Yong Xiaowei, the "pig raising expert," senior editor Yang Qing from the Central People's Broadcasting Station, said: "Compared with 19-year-old boys who are raised in the urban areas and who act like spoiled children, the young servicemen here have to make great sacrifices to enable their comrades-in-arms to have meat to eat. With a lot of contributions made, they do not have any personal requests. This is indeed worth emulating." She continued: "We also encounter difficulties quite often and even grievances. Compared with the base officers and men, our difficulties are not worth mentioning. They are the people with a lofty realm of thought and pure characters." An old comrade, who came with the team, said: "If the organization transfers me here, I will accept it; if I am to come here on my own initiative, I will have to consider it and it will be no easy job to make the decision. However, the officers and men here are willing to suffer hardships and are duty-bound not to turn back. I received an education and was deeply moved by their dedicated spirit. Compared with the selfless dedicated spirit of the base officers and men, self struggle is insignificant. We reached a consensus: Journalism is a lofty undertaking. We should learn from the base officers and men and work selflessly for the party and people."

The spirit of plain living, hard struggle, and selfless dedication of the base officers and men derives from their boundless loyalty to the party, state, and people. As Yang Qing said: "Stamped with the marks of the Gobi sand and the scorching sun, their faces constitute the epitome of the big desert. Their bright piercing eyes show their boundless loyalty to the party and people, their pursuit of the cause, and their ardent love for this piece of land." In the eyes of some people, the concepts of party, state and nation is flagging and their sense of historical responsibility is waning. However, the base officers and men have used their blood and sweat to constantly increase such a sense in the Gobi Desert. When we asked a chief engineer why he was working so hard under such harsh conditions, he replied: "First, we are used to it and, second, our understanding of hardship is different. When we know that we are suffering hardships for the state and nation, we have a sense of pride, responsibility, and mission. Our energy comes from this." Comrades in the team were deeply moved by such boundless loyalty to the party and people. Li Changjian, head of the secretarial section of the Central Propaganda and Ideological Work Leading Group and Yao Yun, deputy editor-in-chief of XINHUA, said: The base officers and men have closely integrated their loyalty to the party and people with their own work. Although they are in the depths of the desert and do not hold high positions, what they have in mind is the country's status in the world and the enhancement of national defense. We were deeply moved by such a sense of responsibility and mission. In the base, the image of party members is

lofty. Wherever there is hardship, there are party members; wherever there is danger, there are party members. Some reporters said: "You can see real party members everywhere in the base." During our stay in the base, we reviewed the party's fine tradition and style and were once again encouraged by the example of real party members.

The short four-day visit passed very soon and the reporters were unwilling to leave the base. They thought of a question: Why could they feel so meaningful during their stay here? The conclusion was: The reporters cannot divorce themselves from the blazing life at the basic levels. The workers, peasants, and soldiers are the examples we should publicize and learn from. Xu Zhuqing said: "The base is a good place for tempering cadres. We should select reporters to live here permanently, temper themselves, and go deep into the reality of life to cover news." Zhang Xiangsheng said: "We just went outside some time ago to temper ourselves. If we had come here, we could have learned more." Yang

Zhengyu, deputy chief of staff of the General Staff Headquarters, also said from the bottom of his heart: "If possible, I am willing to accept in-service training here. If I do not have the opportunity, I am also willing to come here to conduct investigation and studies." You Lin said: Comrade Mao Zedong said that educators should first receive an education. As reporters educate others through the media, they should first receive an education. To publicize workers, peasants, and soldiers properly, we should go deep among them, learn from them, and get close to them in thinking and feeling. Only in this way can we use our pens to vividly describe their deeds. It is necessary to earnestly study Comrade Jiang Zemin's instruction given to the broad ranks of journalists: Study, study, and study again; go deep, go deep, and go deep again.

This visit was not an ordinary one. Besides the exemplary deeds of the base officers and men, the education reporters received was also extraordinary.

### President Li Criticizes Pro-PKC Party Members

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in Chinese 20 Nov 92 p 2

[Article by Wang Ying-ming (3769 5391 6900): "Li Teng-hui Reproaches Many Comrades for 'Using the Chinese Communists as a Pretext To Oppress Their Own People, and for Fawning on the Chinese Communists'"]

[Text] On 11 November, chairman of the ruling party, Li Teng-hui, told the Standing Committee of the ruling party's Central Committee that "as I understand them, Chinese Communist Li Ruihuan's [2621 3843 3883] recent remarks were not as Standing Committee member Shen Ch'ang-huan [3088 2490 3562] said; nevertheless, following the return of a reporter of a certain newspaper (Editor's Note: meaning LIEN-HO PAO), a terrifying dispatch was written that scared the people." Li Teng-hui also said: "Comrades in the party are confused about whether the so-called one China means the Republic of China or the People's Republic of China. It is not that I want to criticize, but some comrades in our party either fawn on the Chinese Communists or want to use the Chinese Communists as a pretext to oppress our own people. There are many such people."

Li Teng-hui made the above remarks to the whole Standing Committee after the ruling party Standing Committee discussed party disciplinary cases that day concerning one China and one Taiwan, and payment of taxes on securities. The power-holding party's Cultural Work Committee [wengong hui 2429 1562 2585] worked that evening and into the dead of night collating the full text of Li Teng-hui's speech, which it faxed to all broadcast media. The full text of Li Teng-hui's speech is as follows:

Seniors and comrades. The fifth case and the sixth case are completely different cases. To discuss these two cases together now is really improper. This was the reason for Standing Committee member Li Kuo-ting's [2621 0948 7844] suggestion about allowing the sixth case to be considered. Let's pass the sixth case first. As for the suggestions various Standing Committee members have made about the fifth case, I express my profound agreement. I particularly want to explain that sending the fifth case back for further discussion does not mean that it should be dealt with lightly or severely. It means only that it is an extremely important case, so it is for this reason that it is sent back for further study. In addition, I propose that the political team of the party Standing Committee further study the meaning of the term "one China." Actually, after this case occurred last month, I immediately asked the chairman, Comrade Hua Li-chin [5478 0500 6651], to make a thorough study of this matter. Why? Today, the meaning of the so-called "one China" is somewhat ambiguous for both comrades in government and for the populace as a whole. Where is the lack of clarity? I would like to say simply that Minister Ch'ien [6929] is also present today. He should

understand the process of the entire matter. Does the so-called "one China" mean the Chinese Communists? Or does it mean the Republic of China? I have said that for us "one China" means the Republic of China, and not the "one country" of the Chinese Communist's so-called "one country, two systems."

Today, comrades in the party and the people are confused. The source of the problem is that when the United States first established the headquarters for the joint defense of Taiwan, both Mao Zedong's "blood bath for Taiwan" and "armed liberation of Taiwan" became impossible. Consequently, the Chinese Communists lambasted the United States for having sent the Seventh Fleet to the Taiwan Strait to protect Taiwan, and Zhou Enlai announced to the outside world that there is only one China, so why did the United States want to manufacture one China and one Taiwan to make two Chinas. This is where the term began. I have conscientiously reviewed former data to find out whether former President Chiang Kai-shek ever used the term "one China." He never did. We use only Republic of China. How the Republic of China usage should be firmly implanted in Taiwan is the point we are working on. *According to my understanding, the recent remarks of Chinese Communist Li Ruihuan were not as Standing Committee member Shen said. The reporters who were present at the time also heard it; however, after returning to his office, the correspondent of a certain newspaper wrote a frightening dispatch that scared our people. Actually, the things that those people did on the mainland, I am completely aware of. Since this has a bearing on national security, this issue is extraordinarily, extraordinarily important. Standing Committee member Comrade Shen Ch'ang-huan's recent statement about Li Ruihuan saying that Communist China wanted a blood bath for Taiwan and not economic development was actually never made by Li Ruihuan. That some people deliberately misreported the entire atmosphere at the time is actually an extremely frightening matter. On this matter, I want to emphasize once again that "one China" means the Republic of China, and that the Republic of China is legal on Taiwan. To say that "Taiwan's position has not been finally decided" is wrong. Furthermore, I emphasize my opposition to Taiwan independence. If the Republic of China does not survive here, and Taiwan becomes the People's Republic of China, what will become of our future? This issue is extremely clear, but where is our party's policy on one China? We have never explicitly stated one; consequently, the comrades in the party are confused. Does the so-called "one China" mean the Republic of China? Or does it mean the People's Republic of China? It is not that I want to criticize, but some comrades in our party either fawn on the Chinese Communists when they meet them, or they want to use the Chinese Communists as a pretext for oppressing our own people. There are quite a few such people!*

How the Taiwan of the Republic of China does more construction, gets back into the United Nations, and gets back into international society is our responsibility.

National unity is unity that is free, democratic, and has shared prosperity; it positively is not a China unified under the "People's Republic of China." We must make his matter clear, and clearly state the party's policy to the people; we must not let the people have any distorted or uneasy state of mind. As for the meaning of "one China," although this has been examined in the National Unification Committee, I personally hope that the party can clearly define a meaning for "one China," and then further study can be done on whether the fifth case requires severe handling? If severe handling is called for, and cancellation of party

registration is required, I personally will not dissent. Today, the Republic of China exists on Taiwan. The Republic of China must make efforts and must clearly state its attitude. In the future process of moving toward peaceful unification, we must maintain our strength and our position. I personally feel this is an extraordinarily important matter. We must discuss it clearly and come to a conclusion. This is the only way to lead our 20 million compatriots in doing a good job of building Taiwan here and to move ahead toward a unified new China that is democratic, free, and has shared prosperity.